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Canadian Liberals Choose Turner to Succeed Trudeau

By Kenneth Freed

OTTAWA — John N. Turner, a Toronto corporation lawyer who has been out of active politics since he resigned as finance minister in a policy dispute with Pierre Elliott Trudeau nine years ago, has won the Liberal Party leadership and will succeed Mr. Trudeau as Canada's prime minister this month.

It took two ballots on Saturday for the party's 3,457 voting delegates to settle on a winner, but Mr. Turner, 55, had been the front-runner in the polls from the start of the leadership campaign 12 weeks ago, and most independent experts had consistently predicted a victory for him.

Mr. Turner won with 1,862 second-round votes against 1,368 for his closest challenger, Energy Minister Jean Chrétien, while Employment and Immigration Minister Donald Johnston got the rest, Mr. Turner led in the first ballot, 1,593, over Mr. Chrétien. The other votes were shared by five others, four of whom then dropped out, three in favor of Mr. Chrétien and one for Mr. Turner.

Under Canada's political system, Mr. Turner will automatically replace Mr. Trudeau at the end of this month even though he is not a member of Parliament.

However, the Liberals are expected to call an election for late summer or early fall, particularly if public opinion polls continue to show the party gaining strength against its main opposition, the Progressive Conservative Party, led by Brian Mulroney.

The Liberals pride themselves on being realists who put winning ahead of sentiment, an attitude that Mr. Turner played on by quietly but obviously differentiating himself from Mr. Trudeau. He promised to rebuild the party and give it a new look, and he pledged to run a more conservative and business-oriented administration.

Mr. Trudeau, 64, has been prime minister for most of the last 16 years.

Mr. Chrétien ran as the heir to Mr. Trudeau even though he was not publicly endorsed by the prime minister. Mr. Chrétien, a resident of Quebec who speaks French as

his first language, billed his campaign as "Main Street against Bay Street," a reference to the Toronto area where many of Canada's biggest and most powerful corporations have their headquarters. Throughout the campaign, Mr. Chrétien, who has served as a senior minister since 1968, was considered the sentimental favorite of the grass-roots Liberal members but was opposed by party professionals. Indeed, he said that he was "the candidate of the people, not the establishment."

Mr. Turner, however, worked hard to convince the party that he was best able to restore Liberal strength in Western Canada, which was alienated by Mr. Trudeau's Eastern-oriented policies. The Liberals have only two members of Parliament from Canada's west and no seats in any western provincial legislature. A resurgence in that area is considered vital for an election victory.

Mr. Turner also took advantage of a party tradition that the leadership post is alternated between speakers of English and French. Mr. Trudeau, from Quebec, is considered a French speaker, although he is perfectly bilingual.

Mr. Turner's strength among the Liberal establishment was clearly underlined by the support he received from nearly three-quarters of the 37 ministers of Mr. Trudeau's cabinet.

Pledge on U.S. Ties

At a post-convention news conference, Mr. Turner pledged to improve relations with the United States and appeared to criticize Canadian-U.S. relations under Mr. Trudeau. United Press International reported from Ottawa.

Asked if relations with the United States had deteriorated of late, Mr. Turner said: "I don't expect any two neighbors won't have serious problems to deal with. It's the atmosphere of how problems are discussed that makes the difference."

Mr. Turner, who is considered more friendly than Mr. Trudeau to current U.S. policies, said that he considered the United States a valued neighbor and would work to reduce conflicts between the two countries wherever possible.



A slogan-bedecked pig in Gdansk, home of the banned Polish labor union Solidarity, attracts the attention of onlookers. The union called for a boycott of Sunday's elections. The slogan on the pig reads, "Vote for Us."

Poles Go to Polls Amid Solidarity Call for Boycott

United Press International

WARSAW — Poles voted Sunday in national elections that were a test of strength between the Communist government and the banned Solidarity union, which had called for a boycott.

The government reported that a large demonstration by Solidarity supporters shouting anti-government slogans was broken up by police in Nowa Huta, a steelworkers' suburb outside Krakow in southern Poland.

More than 1,000 people took part in the demonstration, according to Jerzy Urban, a government spokesman.

Mr. Urban said the protesters began "an attempt to disturb public calm" after Sunday Mass, marching through the town shouting, "We are Poland!" and "Down with the regime!"

Voting booths were open from 6 A.M. to 8 P.M. Officials in Warsaw estimated that "roughly half" of the 26 million registered voters had cast ballots, midway through the day.

It seemed certain that final figures would fall well below the 98.87 percent participation claimed for the last elections, in March 1980, before the workers' uprising that produced Solidarity.

Among those boycotting the elections was the Solidarity leader, Lech Walesa, who attended Mass near his home in Gdansk and then went fishing with his family in a calculated snub to the authorities.

General Wojciech Jaruzelski, Poland's leader, exchanged his army uniform for a civilian suit as he voted early in the morning with his wife, Barbara.

State-run news organizations reported on a parade of political leaders and public figures who took part in the election.

Most of the country's Roman Catholic bishops were in Radom, 65 miles (105 kilometers) south of Warsaw, where they have been meeting to discuss the country's political and religious situation.

Church officials said many of the prelates deliberately stayed away from their home dioceses to show support for the boycott.

A bishop known for his outspoken views in the church hierarchy said in Radom that his colleagues felt "it would be immoral to vote under this political situation."

Voting was not compulsory. The underground called for demonstrations in the capital by "the more courageous for whom the boycott itself is too small," but the appeal drew a negligible response.

About 150 people marched peacefully to Visitation Church in the Old Town section. Standing around a floral cross that serves as an unofficial Solidarity monument, they held their hands high in V-for-victory signs and sang hymns for about 90 minutes.

Leaders of the outlawed union

said all Poles who opposed the Communist rulers' martial-law crackdown in 1982 and the handling of the current economic crisis should stay away from the elections.

Solidarity sources in Wroclaw, in southwest Poland, said state-run newspapers there had stories set in type hours before the polls closed proclaiming the results of the election as a great victory for Poland's socialist system and its rulers.

The government said every ballot cast was a vote of confidence in policies and the country's prospects for the future.

Edward Kowalczyk, deputy prime minister and a leader of the minority Democratic Party, a partner of the Communists in the government, told a reporter as he left a polling station: "A significant act is taking place today. It is a day when citizens are demonstrating their attitudes. This closes out a certain political stage in Poland."

But he added that "we face a gigantic effort to lift the country out of its hardship."

Earthquake Hits Greek Island

The Associated Press

ATHENS — An earthquake measuring 5.7 on the Richter scale shook the eastern Aegean island of Chios on Sunday, causing "slight panic" but no damage or injuries, police said.

Nicaragua Awaits New Rebel Drive After a Regrouping of Insurgents

By Stephen Kinzer

New York Times Service

MATAGALPA, Nicaragua — The military offensive against the Sandinista government that began in March in northern and central Nicaragua appears to have ended, but some rebel forces remain inside the country, according to a Nicaraguan military commander.

The Nicaraguan authorities also say they believe a force of 6,500 insurgents is regrouping and will begin a more destructive offensive in coming weeks.

"We know that it is coming and that we are going to have major confrontations," said Commander Manuel Salvatierra, who heads Sandinista operations in the area.

"We realize that this war is going to continue for a long time," said Commander Salvatierra, who said that insurgent forces had been "partly successful" in setting up bases of operation deep inside Nicaragua. He said his troops had killed 913 rebel soldiers in 156 battles since the offensive began in March, but he declined to disclose the number of Sandinista casualties.

The commander said he believed that 3,000 insurgents remained inside Nicaragua and that 3,500 more would soon begin infiltrating from training bases in Honduras.

"They are trying to influence the peasants and create a social base for themselves," Commander Salvatierra said. Because rebels are operating in isolated areas "where we have no mass organizations," he

said, they have managed to win some popular support.

To deal with these problems and resolve a host of difficulties that face this vital coffee-growing region, the Sandinista government has sent a leading official, Jaime Wheelock, the minister of agrarian reform, to Matagalpa. Officials said he was now working here almost full time.

In towns and villages in the north, residents said they had heard no reports of major fighting since the beginning of June. Many said earlier attacks had led them to believe some of their neighbors might be secretly collaborating with insurgents.

According to Sandinista officers and independent military analysts here and in Managua, the recent offensive was aimed at opening supply routes that would permit insurgent units to remain inside Nicaragua for extended periods.

Commander Salvatierra said as many as 1,100 rebels appeared to be based in the eastern part of Matagalpa province.

In recent attacks on the northern towns of Ocoatl, Waslala and San Rafael del Norte, rebels apparently operating in conjunction with local residents inflicted millions of dollars of damage on government offices, food warehouses and vehicles.

In several towns, according to local officials and residents, rebel attackers have gone directly to the homes of Sandinista organizers, accused them of repressive abuses and killed them.

Much of northern Nicaragua is virtually unpopulated and covered with rugged mountains, which at this time of year are shrouded in fog. The Sandinistas themselves

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INSIDE

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■ Luxembourg, host to 114 banks, has become an offshore banking and finance center at Europe's crossroads. Page 7.

■ The shooting of two burglary suspects in London has raised questions about crime and the use of force by police.



John N. Turner acknowledges applause after his election to succeed Pierre Elliott Trudeau as leader of Canada's Liberal Party. Behind him, center, is the runner-up, Jean Chrétien, with his wife, Aline; Eugene Whelan, left, and John Munro, right, were also candidates.

EC Parliament Election Is Completed

By Axel Krause

International Herald Tribune

PARIS — Voters in six European Community countries went to the polls on Sunday to complete the election of the 434-member European Parliament.

The elections, which began Thursday in Britain, the Netherlands, Denmark and Ireland, have been viewed less as a test of strength of governments and opposition groups in some of the 10 EC countries.

Voting was held Sunday in West Germany, France, Italy, Belgium, Greece and Luxembourg. A total of 4,625 candidates were competing for five-year terms in the second election to the Parliament since it was founded in 1952.

Results were not expected until Monday. Although the 200 million registered voters in EC countries are eligible, turnout traditionally is considerably lower than for national elections. This is largely because of a lack of interest in the European Parliament, which has restricted and mainly advisory powers.

Generally, turnout has amounted to roughly 60 percent of the electorate. Turnout figures for Sunday's voting were not immediately available.

This year, the campaigns drew interest primarily in West Germany, France, Italy and Greece, where the voting took on the aspect of referendums on the policies of ruling governments and the strength of their opposition.

Only in Denmark and the Netherlands was the voting considered a test of opinion on European issues.

In the past few days, surveys have shown that leftist parties would somewhat increase the number of seats they hold in the European Parliament, now at 173. The polls also showed, however, that centrist and rightist parties would continue to control more than half of the Parliament.

Following is a list of campaign issues in the four largest EC countries:

■ **BRITAIN:** The Labor Party, which has played down its previous promises to have Britain withdraw from the EC, has focused its attacks on Prime Minister Margaret Thatcher's economic and social policies, as have leaders of the centrist alliance of Liberals and Social Democrats.

The Conservative Party, led by

(Continued on Page 2, Col. 1)

The Selling of a President '84: Through a TV Tube, Lightly

By Dudley Clendinen

New York Times Service

NEW YORK — In April, three men from the Reagan-Bush campaign office in Washington flew to New York with a page and a half of instructions, condensed from meetings at the White House and campaign headquarters, directing the way President Ronald Reagan's re-election campaign would be sold to the public.

They sat down with a group of advertising executives who had fashioned careers out of selling pet food, Pepsi-Cola, soap and cigarettes.

From this has emerged a Pepsi-like advertising strategy of televised good feeling that will consume at least half the Republican presidential budget of \$47 million before November.

Conceived by the campaign's political staff, scripted and directed by its advertising group, performed in large part by profes-

sional actors and filmed by commercial production teams dispatched in various parts of the country, the commercials are markedly different from those that helped elect Mr. Reagan in 1980.

In 1980, Mr. Reagan was shown as a leader speaking about the issues. The 1984

Monroe praised Ferraro as a "star" Democrat. Page 3.

campaign ads, like the Madison Avenue product commercials, show not Mr. Reagan himself but comes intended to summon up the good feeling that his aides think Americans associate with him.

Because this advertising promotes a president in much the way that Miller promotes beer, it is being closely watched in the fields of politics and advertising.

"That's like a perfume ad," said David Sawyer, the New York media consultant who

produced commercials for Senator John Glenn, Democrat of Ohio, when he was seeking primary votes from the conservative wing of his party.

Mr. Sawyer had just flicked a button on the television recorder in his office and stopped a Reagan commercial at the point at which it showed a gauzy, romantic close-up of a couple kissing at their wedding.

Phil Dusenberry, executive creative director of the Batten, Barton, Durstine & Osborn agency in New York, said of the commercial: "That is what we have done in the past with Pepsi, to elicit a sense of feeling." He added: "It is a sense of optimism, a sense of patriotism."

Mr. Dusenberry is a principal adviser to the Reagan advertising group, which is known as the "Tuesday team."

The sense of a revived economy and a renewed national spirit were conveyed in an initial hatch of seven commercials flowing

with scenes of happy, confident people going to work, moving into new houses, waxing their cars, hugging each other, raising the American flag.

"Life is better... America's back... And people have a sense of pride they never thought they'd feel again," the announcer said.

With a calculated sense of timing, the commercials appeared on \$1.6 million of network and local air time throughout the week of May 21-28. There were several advantages:

● By airing them before Americans left on the Memorial Day holiday honoring the nation's war dead, the campaign got the maximum number of viewers.

● By showing them while Walter F. Mondale and Senator Gary Hart of Colorado were locked in the last rounds of their battle for Democratic primary votes, the campaign

(Continued on Page 2, Col. 5)

Administration Split on Reply to Soviet Arms Bid

By Leslie H. Gelb

WASHINGTON — The Reagan administration remains divided on how to respond to a Soviet proposal to ban anti-satellite weapons, U.S. officials said.

The officials said Saturday that there was virtually no prospect of beginning discussions on the subject before the U.S. elections in November.

The weight of opinion in the administration, the officials said, remains skeptical that any kind of prohibition of these weapons can be verified. But consideration is being given to discussing a limited ban on certain systems and exchanging information.

The officials acknowledged that these alternatives would fall short of Soviet proposals for a comprehensive ban, and they said that they thought there was little chance that Moscow would accept talks on these terms.

Soviet-American jockeying over this issue reached a new pitch last week as President Konstantin U. Chernenko reiterated the Soviet call for negotiations. He said he was sure monitoring arrangements could be worked out.

At first, the United States responded by saying that there could be informal talks, but not formal negotiations. President Ronald Reagan said at a news conference Thursday that he had not "slammed the door" on negotiations.

Mr. Reagan rejected formal negotiations to ban such weapons, but said his statement did not represent "a flat no" on all forms of talks.

One official said the administration might propose a limited measure on the weapons, such as a ban on high-altitude testing.

The president, this official said, continues to oppose a Soviet request for talks on a comprehensive ban on testing or production of anti-satellite weapons. Mr. Reagan's position is that such a ban would be impossible to verify.

The officials said there was no chance that the United States would agree to ban the low-altitude weapons that are the only real threat to satellites.

That means that the United States will insist on being able to begin the scheduled tests of its new low-altitude system against an actual object in space. The Russians already have a low-altitude system to intercept satellites.

The dominant view among U.S. experts is that the U.S. system, when completed, will be superior to the Soviet system. Moscow has declared a unilateral freeze on further testing of its system and has not tested for over a year.

The House of Representatives recently moved to block further testing of the U.S. anti-satellite system as long as the Soviet freeze continues. The Senate last week approved testing on the condition that Mr. Reagan agrees to negotiate with the Russians.

The Pentagon and the president's science adviser, George A. Keyworth 2d, are said to be against any form of negotiation. They continue to believe that a ban on testing any anti-satellite system — a missile to destroy, a laser to blind or electronics to jam — would be unverifiable.

They are said to be particularly concerned that any ban on testing anti-satellite missiles might preclude testing of a U.S. anti-ballistic missile. The Pentagon recently conducted its first successful test of these missiles, which could also be used as anti-satellite missiles.

If the president were to decide on negotiations, the Pentagon and its

allies are said to be willing to discuss potential incidents in space. Like an existing treaty on incidents at sea, such an arrangement would be intended to establish rules to reduce the risk of accidental collisions and threatening actions.

In conjunction with this, both sides could discuss so-called confidence-building measures. This would entail exchanging information, test plans and mutual promises.

The State Department and the National Security Council staff, officials said, would regard such measures as the minimum response. They are said to be willing to go further in several directions.

One would be to propose limiting each side to a single low-altitude system. This would allow the Moscow to keep its system and the United States to develop its own.

A second would simply call for discussions on banning low-altitude systems. Officials said that, in effect, this would be a delaying action enabling the United States to continue testing its system.

A third would propose banning high-altitude systems capable of intercepting satellites above 22,000 miles (36,000 kilometers). Neither side now has the capacity to do so, although some Pentagon experts said the existing Soviet low-altitude system could be improved to give it such a capacity.

U.S., Soviet Will Resume Trade Talks

New York Times Service

WASHINGTON — Administration officials say that the United States will resume limited economic talks with the Soviet Union.

The disclosure on Friday was interpreted by some officials as part of a general relaxation in tone and attitude toward the Soviet Union at a time of rising concern in Congress and throughout the United States and in Western Europe about sharpening tensions between Moscow and Washington.

Administration officials said President Ronald Reagan's offer at his news conference on Thursday to "meet and talk any time" with the Soviet leadership also marked a small shift in attitude and tone.

But the officials added that Mr. Reagan's aides remained skeptical of the chances for a summit meeting soon, or even of easing tensions. Seeking to clarify comments by Mr. Reagan at his news conference, administration officials said the president decided only last week to open the door somewhat to a summit conference with Konstantin U. Chernenko, the Soviet leader.

Mr. Reagan's leading advisers were described Friday as feeling that there still no indication of Soviet attitudes to such a conference. But the advisers were said to consider that there was a slim chance of a change of approach in Moscow this year, and that Mr. Reagan was eager to encourage it.

Economic talks between Washington and Moscow were suspended by President Jimmy Carter after the Soviet intervention in Afghanistan in December 1979. An official decision had not yet been made on when the economic talks would be held.

A senior administration official said that, in addition to reviving those talks, the administration had decided to renew an economic cooperation accord with the Soviet Union for 10 years. The pact expires next month.

Pentagon Reports Drop In European Spending

Reuters

BRUSSELS — Defense Secretary Caspar W. Weinberger has sent a classified report to Congress saying that West European military spending is falling below NATO's goal of a 3-percent real annual increase. NATO sources said Sunday.

The report has provided fresh ammunition for senators who want to link the continued presence of 350,000 U.S. troops in Western Europe to greater defense efforts by the North Atlantic Treaty Organization, they said.

A source said the report, which the Pentagon is required to give to Congress each year, said West European military spending rose on average by just over 1 percent after inflation last year.

The Senate is due to discuss amendments to the U.S. military budget this week that call for gradual cuts in U.S. forces unless European governments agree to improve military efforts and funding for NATO programs.

The sources said senior U.S. NATO officials were lobbying strongly against the amendments, warning that they could be counterproductive.

In a statement responding to inquiries Sunday, the U.S. mission to NATO said: "While we support the objective that all allies need to spend more to strengthen NATO's conventional defenses, we are opposed in principle to any move designed to shock the Europeans into spending more."

"We believe such a move would not accomplish the aim its proponents apparently have."

The sources said officials had told congressmen that many European allies faced severe budgetary constraints and were trying hard to maintain defense while cutting welfare spending.

The last serious congressional attempt to cut U.S. forces in Europe was in the early 1970s when an amendment by Mike Mansfield, who at the time was a Democratic senator from Montana, was narrowly defeated.

Reagan's Bid to Soviet Is Seen as Politicking By Some Europeans

By E.J. Dionne Jr.
New York Times Service

PARIS — Some West European commentators view President Ronald Reagan's offer to meet with Soviet leaders more as a response to the pressures of an election year than as a major breakthrough in American foreign policy.

Even conservative papers that often support Mr. Reagan policies offered that interpretation of the announcement. Some liberal or leftist papers questioned the president's sincerity.

Mr. Reagan announced Thursday that he was willing to "meet and talk any time" with the Soviet leader, Konstantin U. Chernenko, to discuss a broad range of subjects. The president added, however, that the Russians had rebuffed him by insisting on "a very carefully prepared agenda" of items.

Some newspapers, such as *Kölnischer Stadt-Anzeiger* in Cologne, gave the announcement prominent space on its front page. Others, such as *Le Monde* in Paris, used a small item inside the paper.

There was little immediate reaction from political leaders, many of whom were involved in campaigns for the European Parliament.

Typical of reaction in Mr. Reagan's announcement was a headline in *Le Figaro*, a staunchly conservative and generally pro-Reagan paper in Paris. The paper called the offer "first of all, a public relations operation."

The *Daily Telegraph* in London, another conservative paper generally sympathetic to the president, said the statement "cannot fairly be described as a dramatic, spellbinding shift in policy by an American president who too long ago was known for his attacks on the 'evil empire.'"

EC Voting Is Completed; Internal Issues Dominate

(Continued from Page 1)

Mrs. Thatcher, ran on a slogan of "A Strong Voice to Europe."

The estimated voter turnout in Britain of about 60 percent was the lowest among EC countries.

Several polls predicted a shift to the Labor Party in the voting. A straw poll by the *Louis Harris* organization for the Independent Television Network showed that the Conservatives would lose 16 of their 60 seats in the Parliament.

A *Newsnight-Guardian* Marplan poll published by *The Sunday Times* predicted that Labor would win 41.5 percent of the vote, with 38 percent for the Conservatives.

Other polls showed an extremely close race between those parties, with the Social Democratic-Liberal coalition trailing.

Britain has 81 seats in the Parliament, as do West Germany, France and Italy.

WEST GERMANY: Although the opposition Social Democrats have criticized Chancellor Helmut Kohl's economic policies, attention has focused on the future of the Free Democrats, the junior partner in Mr. Kohl's government.

The Free Democrats have been heatedly attacked for supporting an amnesty involving tax advantages for businessmen. The party's rating has also slipped in recent surveys.

A poll published Friday by the Institute for Social Research and Statistical Analysis predicted that the Free Democrats would fail to obtain the 5 percent of the vote needed to be represented in the Parliament. In 1979, the party, which is headed by Foreign Minister Hans-Dietrich Genscher, won 6 percent of the vote and four seats.

The institute also predicted that the Greens, the environmental and anti-war party, would win at least 5 percent of the vote and enter the Parliament for the first time.

Political observers said they expected voter turnout to be close in the 65 percent of the previous election in 1979.

Mr. Kohl, emphasizing European themes, has appealed to voters

The paper noted that "the Democrats are looking to foreign affairs, rather than the economy, to advance their campaign."

The *Times* of London said Mr. Reagan's statement was "understandably interpreted by many as more relevant to the forthcoming elections than to reducing East-West tensions."

In France, *Le Figaro* said that Mr. Reagan's conversations with European leaders had contributed to his decision to take his new position on talks with Soviet leaders.

Le Monde, the influential Paris daily, said that Mr. Reagan's statements, combined with slightly more conciliatory statements made by the Russians, indicated "a slight change in tone between the two superpowers."

But the paper also emphasized the elections and in particular the worries of Senate Republicans over the effect of the issue of U.S.-Soviet relations in the Senate campaigns around the country. It singled out difficulties that Senator Charles H. Percy, a Republican and chairman of the Foreign Relations Committee, faces in his re-election campaign in Illinois.

In Munich, the *Süddeutsche Zeitung* said it did not expect the Soviet Union to respond favorably to Mr. Reagan's proposals, since Russian leaders "do not want to give election support to Reagan."

In Cologne, the *Kölnischer Stadt-Anzeiger*, like *Le Monde*, emphasized that Mr. Reagan's announcement came at the same time as a mild moderation in the nature of Soviet statements.

"The U.S.A. and the U.S.S.R. both have given new signals for a dialogue and have shown their readiness for a summit," the paper said.

to provide the EC with "the impetus to put us back on the road of a real community."

FRANCE: The vote is viewed as the biggest test of the popularity of President François Mitterrand's Socialist government since it came to power three years ago.

Lionel Jospin, who heads the Socialist Party and its list of government-backed candidates, recently termed the balloting "a useful dress rehearsal" for the 1986 legislative elections.

Most polls and surveys showed the Socialist and Communist parties losing strength.

A poll by the *Sofres* organization has predicted that a joint opposition list of candidates led by Simone Veil of the Union for French Democracy would win 44 percent of the vote, compared with 35 percent for the Socialists and Communists.

That poll also showed that Jean-Marie Le Pen's extreme-right National Front would win 7 percent of the vote. If that proves true, the party will win seats for the first time.

Polls have not given clear estimates of the turnout.

ITALY: The vote is viewed as a crucial test for the 10-month coalition government of the Socialist prime minister, Bettino Craxi, primarily because the Communist Party may overtake the Christian Democrats in a nationwide vote for the first time in Italian history.

Mr. Craxi urged voters on Friday to "ratify and support" his five-party coalition government, which includes Christian Democrats, Socialists, Republicans, Social Democrats and Liberals.

But the Communists have benefited from grief for Enrico Berlinguer, the party secretary, who died a week ago. If the party gains at the expense of the Christian Democrats, the result could include a reorganization of Mr. Craxi's coalition.

Reliable turnout figures were not available.



Two of the accused Israeli settlers walked arm in arm Sunday as they entered the district court in Jerusalem.

Jewish Settlers Ask Delay Of Trial on Terrorism

Compiled by Our Staff From Dispatches

JERUSALEM — The trial of 22 Israeli settlers accused of being involved in terrorist activities opened Sunday. The defense immediately asked for a three-month adjournment because of what it called "a lynch atmosphere."

Judge Yaakov Bazak ended the session after six hours and said the court would study the defense's request for a delay because of adverse pre-trial publicity.

Heavy publicity in newspapers and television and radio "has created a hostile atmosphere, an atmosphere of lynch," a defense attorney said.

The 22 are alleged to have formed a Jewish underground in the Israeli-occupied West Bank that carried out a series of attacks on Arabs and Islamic holy sites between 1980 and 1984.

Six of the 22 were charged with the murder of four Arab students at the Islamic College in Hebron in 1983; the others were charged with attempted murder and membership in a terrorist organization.

The six charged with murder face a maximum life sentence; the others face maximum punishment of 10 to 20 years imprisonment.

In all, 27 Jews have been arrested

since late April on terrorist charges. The names of five have been released: three who were found guilty and two who are to be tried separately.

The crowded chamber erupted in shouting when the defendants' wives screamed "PLO!" at two Arab lawyers who were observing the trial on behalf of West Bank mayors maimed in attacks allegedly plotted by the Jewish underground group.

"We cannot sit in an Israeli courtroom with the murderers of our brothers," a woman cried. Wives of the defendants then left.

One of the lawyers, Tarish Nasr, said: "I have no connection with the PLO," the Palestine Liberation Organization.

"I am not a member of the PLO," he said. "I am just a professional lawyer."

Mr. Nasr said he was an observer for the former mayors, Khairat Khalaf of Ramallah and Ibrahim Tawil of El Bireh. Mr. Khalaf lost his legs in a 1980 car bombing. Mr. Tawil escaped injury.

The other Arab lawyer was Ali Sabri, representing Basim Shakaa, who lost his leg on June 1980 in an attack in Nablus.

(UPI, Reuters)

EC Legislature Lacking In Lawmaking Powers

International Herald Tribune

PARIS — Most of the 434 members of the European Parliament, who are elected to five-year terms, are legislators in their home countries. But while sitting in Strasbourg, they have little of the power they wield at home.

In fact, their role is only an advisory one, which mainly involves delaying and debating proposals of the European Community's executive branch, the EC Commission, and the Council of Ministers.

Among the legislature's most dramatic successes were rejections of the EC budgets in 1980 and 1982, in attempts to force EC leaders to find a solution to Britain's contribution. The budgets were later adopted.

The Parliament also can vote a censure of the 14-member EC commission and remove it from office, but cannot replace its members. It has previously tried to remove it,

but failed to obtain the necessary two-thirds majority.

The Parliament "exists in institutional isolation from the Commission and the Council," said Clifford Hackett, a former U.S. Congress staff member who recently completed a study of the Parliament.

Mr. Hackett published some of the results in the current issue of *Europe*, a magazine published by the EC Commission in Washington. He said: "What the European Parliament produces is not legislation, but its own reports. It lacks true legislative powers. It is not even a parliament in the European meaning."

The Parliament has, however, been a platform for Europe-wide discussions of human rights and environment issues. Last year, its proposals led to the halting of the imports of some types of seal pup skins into the EC.

The Parliament's current president, Pieter Dankert of the Netherlands, has conceded the weaknesses and argued repeatedly for increased powers from the EC's 10 member governments.

Writing in the *International Herald Tribune* last week, Mr. Dankert said that the fate of the EC itself is "inextricably linked" with that of the Parliament. He said the body "must escape from the treadmill it has been on."

He recommended that the Parliament be given the decision-making powers originally granted to the Council of Ministers.

The council, whose present chairman is President François Mitterrand of France, consists of ministers or heads of government; it functions as a legislative body because only it has the power to accept or reject proposals on behalf of the 10 EC members.

To date, most of the key EC members have not appeared willing to propose steps to strengthen the Parliament, although many have urged closer political cooperation in the community.

— AXEL KRAUSE

Warsaw Pact Exercise Set

The Associated Press

BUDAPEST — Russian, Hungarian and Czechoslovak troops will soon begin maneuvers in Hungary, the state-run MTI news agency reported. The agency said about 16,000 soldiers would participate in the Warsaw Pact exercise, but it gave no other details.

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Iraq Reacts Cautiously To Iran's Offer in Gulf

By David B. Ottaway
Washington Post Service

KUWAIT — Iraq reacted cautiously to Iran's offer on Friday to halt attacks on civilian ships in the Gulf, saying it would only agree if its ports were included and Iran accepted freedom of navigation for all in the vital waterway.

Iraq's information minister, Latif Nassif al-Jassim, in a statement released Saturday through the official Iraqi news agency, called upon Iran to clarify its intentions and accept explicitly UN Resolution 540, which condemns the recent Iranian attacks on neutral shipping and reaffirms the right of free navigation in the Gulf.

Iraq's parliamentary speaker, Hashemi Rafsanjani, said Friday that his country would welcome an expansion of a UN-brokered agreement June 11 in halt attacks on civilian ships. "If the Iraqis do not strike" in the Gulf, he said, "we will not even fire one bullet."

Mr. al-Jassim replied that if Mr. Rafsanjani "means to prohibit Iraq from striking Iranian ships without giving full guarantees for Iraq's rights to use its ports and waterways and its legitimate right to free navigation," then Iraq expects that completely and will continue striking.

He challenged the Iraqis to clarify their attitude toward the UN resolution, apparently to probe whether Iran, in its second conciliatory gesture in a week, was moving toward a new policy in the 45-month-old war.

Observers here did not expect Iraq to accept the moratorium on ship attacks unless Iran allows free passage of oil exports through Fao, the terminal destroyed at the start of the war. Such a major concession by Iran could suggest it was ready to end the war.

However, Iran is still reported to be massing volunteers on the Iraqi border. Iraq started the war, only to lose the initiative to Iran before the onset of the current stalemate along the nations' lengthy border.

Iraq accused Iran on Saturday of violating the moratorium on shelling of civilian targets. The Associated Press reported from Manama, Bahrain.

Iraqi military authorities said that Iranian gunners had shelled the central border hamlet of Sayed Saad for two and a half hours. There was no immediate Iranian comment.

One indication of a possible Managua Sees Rebel Drive

(Continued from Page 1)

started their guerrilla war here, as did the man after whom their movement is named, Augusto Cesar Sandino, who fought government troops and U.S. marines in the 1920s and 1930s.

The Sandinista junta coordinator, Daniel Ortega Saavedra, and his brother, Humberto Ortega Saavedra, the minister of defense, have visited this area in the last few days. They assured soldiers and civilians that the government considered defense its priority.

Ortega Visits Moscow

Daniel Ortega Saavedra, leader of the Nicaraguan junta, and other Nicaraguan officials arrived in Moscow on Sunday on a working visit with Soviet leaders. Reuters reported from Moscow, quoting Tass.

Gangs Try to Break Up Mass

Gangs supporting the Sandinista government tried Saturday to prevent the celebration of a special Mass by the country's nine Roman Catholic bishops. The Associated Press reported from El Sauce.

Churchgoers fought hand-to-hand with the leftists and were able to open a path so the bishops could enter the church in the town, 120 miles northwest of Managua. There apparently were no serious injuries.

On Wednesday, Sikhs abroad proclaimed a Sikh republic of Khalistan with headquarters in London and a cabinet in exile comprised of Sikhs living in Britain, Canada and West Germany.

In an interview for Australian and Canadian radio carried by the British Broadcasting Corp., Mrs. Gandhi also appealed to foreign governments not to aid Sikh separatist groups in their countries.

Radioactive Iron Kills 6 in Morocco

RABAT, Morocco (AP) — Six members of a family died after being contaminated by a piece of radioactive iron and about 20 other people who had been in contact with the metal are under medical surveillance, according to Morocco's Interior Ministry.

In a statement Friday, the ministry said the six family members, from the Casablanca region, died June 9. It said 20 other people were being watched and three among them had been sent abroad for medical treatment.

The statement said the metal belonged to an industrial company in the Casablanca region. Three officers of the company were being questioned, the statement said without giving identities or naming the company. Sources said the piece of iron had been found in the home of the deceased family.

For the Record

The U.S. Senate approved a resolution Friday urging President Ronald Reagan, in conjunction with other world leaders, to call on Iran to stop persecution of members of the Baha'i faith. The resolution was identical to one already approved by the U.S. House of Representatives. (UPI)

A senior member of the outlawed Irish National Liberation Army, a Marxist offshoot of the Irish Republican Army, was shot dead in a raid by police and troops on a West Belfast apartment building Friday. Police believe that Paul McCann, 20, who killed one officer, either killed himself or was hit by a ricocheting bullet from his own gun. (AP)

Israel Radio and Television went off the air Sunday at the start of a three-day strike by broadcast journalists demanding 33-percent wage increases from the government. The Armed Forces Radio, many of whose employees are military personnel, remained on the air and broadcast hourly news bulletins. (UPI)

Japanese demonstrators by down in the streets as more than 3,800 people rallied Sunday near the U.S. naval base in Yokosuka, about 45 kilometers (28 miles) southwest of Tokyo, to protest the scheduled deployment of nuclear Tomahawk missiles on U.S. Navy vessels. (AP)

A passage from a New York Times article in Friday's *International Herald Tribune* on the treatment of genital herpes incorrectly suggested the availability of the drug Zovirax for oral use. Oral use is not a part of the U.S. Food and Drug Administration, which is still evaluating the treatment.

WORLD BRIEFS

Libel Count Against Filipino Dropped

MANILA (AP) — A judge has dismissed libel charges against a newspaper publisher, Rommel Corro, who was ordered imprisoned by President Ferdinand E. Marcos eight months ago on separate charges of sedition, the journalist's wife said.

Angie Corro called the dismissal of the libel allegations "a rare show of judicial independence" by Judge Bienvenido Chingungwa. The sedition charge is pending before another judge and Mr. Corro remains in prison.

Mr. Corro was ordered arrested by Mr. Marcos after his weekly *Philippine Times* carried a series of articles suggesting that the government was implicated in the assassination of Benigno S. Aquino Jr., an opposition leader.

Some Meetings Banned in Zimbabwe

HARARE, Zimbabwe (WP) — The government of Prime Minister Robert Mugabe on Sunday announced a ban on political meetings by the party of a key opposition leader, Joshua Nkomo, in the country's key central midlands province.

State Security Minister Emmerson Mnangagwa justified the ban by accusing local leaders of Mr. Nkomo's Zimbabwe African People's Union of fomenting and sheltering armed dissidents who have killed eight officials of the ruling Zimbabwe African National Union party in the last six months.

The ban is the latest step in a campaign against political dissent in the province, a potentially pivotal district in next year's expected national election. Last week, the government closed the People's Union office in Kwekwe after 2,000 pro-Mugabe demonstrators marched on it and threw an office worker from a third-story window. The worker is reportedly recovering.

Eight Iranian Defectors Seek Asylum

LUXOR, Egypt (Combined Dispatches) — Eight Iranians who hijacked an Iranian Navy transport to Egypt on Friday were still seeking a country of refuge Sunday.

Egyptian security authorities said the Iranians had been trying to telephone foreign embassies in Cairo but had failed "because of bad telephone lines." The defectors had flown to Egypt after being refused asylum by Bahrain, the United Arab Emirates and Saudi Arabia, according to political sources quoted by United Press International.

Egyptian Foreign Ministry sources told Reuters that Egypt would not grant asylum to the Iranians and that they were likely to go to Europe or Latin America. Reuters quoted diplomats as saying that it would be awkward for Egypt to grant the Iranians because it is involved in efforts to end the Iran-Iraq war.

EC Aides Meet to Prepare for Talks

LUXEMBOURG (Reuters) — European Community foreign ministers will meet Monday to prepare for a summit conference next week. The dispute over Britain's budget payments continues to undermine community finances. Britain has said it will not approve new funding before a long-term budget arrangement is completed. At the March summit meeting, only about \$200 million separated the two sides on the reference figure for calculating annual rebates for Britain.

European Commission officials say this year's \$22-billion budget is likely to be exhausted by October as farm spending continues to run well over budget despite changes agreed upon in March. The commission has requested a \$2-billion loan from members to meet the expected shortfall, although there is disagreement over whether that much is needed.

U.S. Criticized for UNESCO Action

BUDAPEST (AP) — Soviet-bloc delegates to the United Nations Educational, Scientific and Cultural Organization say a planned U.S. withdrawal from the agency seems like "blackmail and pressure," the Communist Party newspaper *Nepszabadsag* said Saturday.

Delegates also criticized the "hegemonic policy" of the United States and its "intervention" in Nicaragua, the newspaper said. It was reporting on a weekend meeting of UNESCO committees of the Soviet Union and 10 of its allies. The meeting ended Friday.

The United States, complaining of anti-Western bias and politicization of UNESCO, has announced its intention to withdraw by the end of the year.

Alfonso Criticizes Thatcher Comment

SANTIAGO DE COMPOSTELA, Spain (UPI) — President Raul Alfonsín of Argentina ended a five-day visit to Spain on Saturday with a parting criticism at Prime Minister Margaret Thatcher of Britain.

Before his departure by air for Buenos Aires, Mr. Alfonsín was asked his opinion of Mrs. Thatcher's rejection of a Spanish-Argentine statement declaring Gibraltar and the Falkland Islands, which are known in Argentina as the Malvinas, colonial possessions. "Nobody can expect anything else from Margaret Thatcher," he said.

The joint statement, issued Wednesday, denounced the "anachronistic colonial situation" of Gibraltar and the South Atlantic Islands that Argentina unsuccessfully invaded in May 1982.

Zhao Calls European Trip a Success

BEIJING (AP) — Prime Minister Zhao Ziyang returned home Sunday from a six-nation tour of Western Europe that he described as a "complete success."

Mr. Zhao said China's relations with Western Europe would develop "firmly and durably," but he was critical of European competitiveness and knowledge about what China needs and can offer.

"Business is business," the official news agency *Xinhua* quoted Mr. Zhao as telling Chinese reporters on board his plane home. "It is our hope that Western European countries and their business circles will become more competitive in terms of prices, quality of products, supply of loans and service and particularly in technological transfer."

Tunisia Sentences Fugitive Ex-Official

TUNIS (Reuters) — Tunisia's former interior minister, Driss Guiga, 60, was found guilty of high treason Saturday and sentenced to 10 years of forced labor. He is living in London and was tried in absentia.

Mr. Guiga was charged with negligence, misleading President Habib Bourguiba about the seriousness of foot riots in January and exploiting the violence to further his political career.

The former national police chief, Abdelhamid Skhiri, who was present in the courtroom, was sentenced to five years in prison as an accomplice of Mr. Guiga.

Radioactive Iron Kills 6 in Morocco

RABAT, Morocco (AP) — Six members of a family died after being contaminated by a piece of radioactive iron and about 20 other people who had been in contact with the metal are under medical surveillance, according to Morocco's Interior Ministry.

In a statement Friday, the ministry said the six family members, from the Casablanca region, died June 9. It said 20 other people were being watched and three among them had been sent abroad for medical treatment.

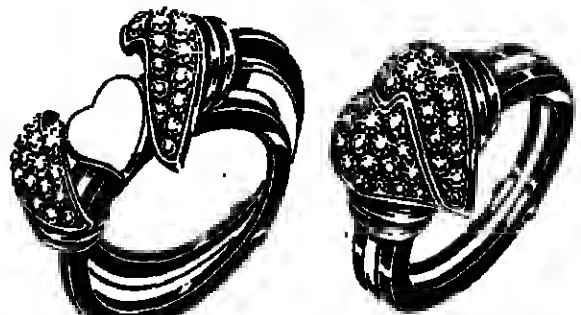
The statement said the metal belonged to an industrial company in the Casablanca region. Three officers of the company were being questioned, the statement said without giving identities or naming the company. Sources said the piece of iron had been found in the home of the deceased family.

Correction

A passage from a New York Times article in Friday's *International Herald Tribune* on the treatment of genital herpes incorrectly suggested the availability of the drug Zovirax for oral use. Oral use is not a part of the U.S. Food and Drug Administration, which is still evaluating the treatment.

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FRED

What's in a Name? Richardson Will Soon Know

He Tells Voters 'Call Me Muggsy' in Fight for Massachusetts Senate Seat

By Margor Hornblower
Washington Post Service

BOSTON — Elliot Lee Richardson, the Boston Brahmin with more cabinet offices on his résumé than any living politician, would rather be known as "Muggsy."

He adopted the nickname a week before announcing his candidacy for the U.S. Senate when he showed up at Boston's St. Patrick's Day celebration only to be kidded for having nothing but last names.

"Elyot," intoned Billy Bulger, a Democrat of Irish descent and president of the Massachusetts Senate, mimicking Mr. Richardson's upper-crust accent. Then he held up a fake newspaper headlined: "Vote Elyot, He's Better Than You."

Taking the microphone, Mr. Richardson said: "There are many things I admire about the Irish. Their warmth, their wit. What I particularly like are the names. The first names — Billy, Teddy, Sonny, Tip, Knocko." Then he added: "I'd like to be known as Muggsy."

The polls show Mr. Richardson, whose campaign buttons read "I love Muggsy," leading a field of Republican and Democratic contenders with names such as Kerry,

Shannon, Shamie and Connolly in this overwhelmingly Democratic and ethnic state.

Mr. Richardson left Boston 15 years ago to become President Richard M. Nixon's undersecretary of state; secretary of health, education and welfare; secretary of defense; and attorney general.

He went on to be President Gerald R. Ford's secretary of commerce and ambassador to the Court of St. James's, and he served President Jimmy Carter as negotiator for a sea-law treaty. Now he has thrown the state into political ferment with his bold attempt in the Senate race.

The Massachusetts senatorial primary, with contested races in both parties, has become one of the most closely watched in the country. Senator Paul E. Tsongas, a popular Democrat, announced in January that he had lymphoma, a form of cancer, and would resign to spend more time with his family.

No Republican has been elected to statewide office in Massachusetts since 1972 and Republican Party registration has dropped to 13 percent. But Republicans nationally see the state as one of their best chances to capture an open Senate seat.

In the primary balloting Sept. 18, Mr. Richardson, 63, faces Ray Shamie, 63, a self-made millionaire who won a respectable 38 percent of the vote against Senator Edward M. Kennedy in 1982.

The Democrats are sharply divided. Lieutenant Governor John Kerry, former head of Vietnam Veterans Against the War, and U.S. Representative James M. Shannon, a young liberal, lead a four-man field that includes a former speaker of the Massachusetts House, David Barley, and the Massachusetts secretary of state, Michael Connolly.

"Beating Elyot is going to be tough," said U.S. Representative Brian J. Donnelly, a Democrat. "We have a tradition of voting for the old puritans. They have the image of integrity, of government service."

Mr. Shamie, the son of working-class Syrian and French Catholics, says he was outraged by Mr. Richardson's entry into the race.

He said "we reject the stereotype" that the Massachusetts Republican Party "is merely a social club for the elite and well-born, closed to those who are not white or Protestant," he wrote in a letter to 5,000 Republicans statewide.

Although recent polls show him trailing by 10 points, Mr. Shamie was endorsed by many Republican town and county officials before Mr. Richardson entered the race.

Mr. Shannon and Mr. Kerry are busy debating among the Democrats which of them is "most electable against Elyot." The 39 percent of voters registered as independent can vote in either party's primary.

"If Elyot Richardson gets elected to the Senate, are you ever going to see him in Massachusetts?" Mr. Shannon asked a group in Boston's South End. "He has a résumé a pack mule couldn't carry, but he's not going to light any fires in the U.S. Senate."

Mr. Shannon, 32, has been endorsed by the U.S. House speaker, Thomas P. O'Neill Jr., and by many of the most politically active feminist groups and labor unions.

A poll by MRK Research of Boston showed Mr. Richardson beating Mr. Kerry by 5 points and Mr. Shamie by 19 points and Mr. Barley by 25 points. Mr. Connolly, a long shot, was not included.

The Democrats point to Mr. Richardson's involvement in policymaking for the Vietnam War and his refusal to endorse an immediate cutoff of CIA aid to rebels in Nicaragua.



Elliot L. Richardson

Mr. Kerry said of Mr. Richardson: "The moment I get him into a debate, he'll fold."

He said he was an anti-war leader "while Elyot was defending the war in Cambodia. When he says 'Listen, I'll be in those nice paddies,'"

He adds: "If I were Elyot Richardson, I wouldn't want to run against me."

Mocked by Mr. Shamie as a Clark Kent look-alike and hampered by a dull speaking style, Mr. Richardson has worked hard to brighten his image. He even appeared at the city dump to help people unload garbage.

U.K. Admits Two Soviet Deserters

Afghans Used Opium To Keep Them Docile

The Associated Press

LONDON — Two Soviet soldiers who deserted to rebels in Afghanistan have arrived in Britain and will be allowed to stay for a year, the Home Office said.

The Home Office said Saturday that Sergeant Igor Rykhov, 22, and Oleg Khan, 21, arrived Thursday after asking Prime Minister Margaret Thatcher for asylum.

Lord Bethell, a member of the European Parliament who worked on behalf of the two soldiers, said they were in a hospital "somewhere in the London area" undergoing treatment after being forced to take opium continuously during the year they were held by the rebels.

Lord Bethell, who is a specialist on Soviet affairs, said the Afghan rebels had no prison facilities and that the opium was forced on the deserters to keep them docile.

Lord Bethell said he went to a rebel-controlled area of Afghanistan in February and saw a number of Soviet prisoners.

"These two seemed to be the best candidates for immediate release because their captors were willing to release them," he added.

He said he suggested that they write letters to Mrs. Thatcher and they did, "explaining that they had been conscripted into an unjust war and they had taken the first opportunity of deserting and now wished to live in a free country."

Lord Bethell said he delivered the letters to Mrs. Thatcher.

The Mail on Sunday published a report that included a photo of the two soldiers in civilian clothes standing in Trafalgar Square.

The newspaper said they did not know until the last minute that they were being freed, and when their captors put them in a jeep they thought they were going to be executed.

"We had no idea that we were going to be released, far less that we were going to London," they were quoted as saying.

Soviet Offensive

An Afghan rebel leader said Saturday that Soviet troops had killed more than 1,000 civilians in Afghanistan's western province of Herat during the past two weeks, Reuters reported from Peshawar, Pakistan.

The Jamiat-ul-Islami resistance group leader, Burhanuddin Rabbani, said at a news conference that the Soviet offensive was directed at the provincial capital of Herat and the villages around it.

He said the Jamiat had approached the United Nations office in Tehran to ask the UN to intervene to stop what he called a massacre of civilians by the Soviet forces but he had no information about the UN response.



Wilson Ferreira Aldunate flashed a victory sign Saturday in the Uruguayan capital after he was taken from the ferry.

Uruguay Arrests Exile As He Returns for Vote

By Edward Schumacher
New York Times Service

MONTEVIDEO — Wilson Ferreira Aldunate, an exiled Uruguayan presidential candidate, was arrested Saturday aboard a ferry as he was returning to his homeland for the first time in 11 years.

A patrol boat and a destroyer intercepted the ferry carrying Mr. Ferreira and 400 political supporters and journalists after an all-night crossing of the Rio de la Plata from Argentina.

A crowd estimated at nearly 100,000 chanting and singing Uruguayan had gathered in a boulevard leading to the defunct National Congress to greet Mr. Ferreira. They dispersed peacefully after false reports that the ferry was being diverted to the seashore resort of Punta del Este, 100 miles (160 kilometers) away.

Mr. Ferreira is the candidate of one of the country's two largest parties, the centrist Nacional Party, for elections in November.

He has been banned from politics since 1973 by the military government of General Gregorio Alvarez. He is wanted on a series of eight-year-old charges, among them aiding Tupamaros guerrillas and threatening the country's security by lobbying against the government while in exile.

Mr. Ferreira, who denies the charges, was taken in a military convoy to an undisclosed location after the ferry docked. The pier was surrounded by troops and under the cover of helicopters.

Interior Minister Julio Rapela said late Saturday that Mr. Ferreira would be held incommunicado until a military judge made a decision on allowing visitors. United Press International reported from Montevideo.

[Mr. Ferreira was forced to sign a

brief declaration before disembarking at Montevideo port. It was not known what the declaration said.]

He had refused to get off the ferry when it was intercepted several miles offshore by a patrol boat and a destroyer, according to radio reports.

Armed navy officers then commandeered the ferry and detained the 65-year-old exile and his 31-year-old son, Juan Raúl, in the father's cabin, according to the reports.

The younger Mr. Ferreira is also wanted by the government for criticism of the military while in exile. Passengers offered no resistance; they sang the national anthem as the arrests were carried out.

Government officials said they did not forcibly remove Mr. Ferreira from the boat because of the danger that he might fall into the river if he resisted.

The government had warned Uruguayans in a communiqué Friday that "precoceived" violence and subversion accompanying the political leader's return. Demonstrations were banned.

Police and army patrols, some accompanied by light tanks, drove through the city Friday night in a show of force. The port was blockaded by cargo containers.

People of all ages turned out on a chilly morning for the demonstration, many of them waving the blue and white flag of Mr. Ferreira's faction in the Nacional Party. Afterwards, cars rushed through the quiet city for most of the afternoon, beeping horns and waving flags.

Uruguay is a ranching country of 2.8 million people. The turnout of nearly 100,000 people was nearly 10 percent of this country's population. It underlined in part Mr. Ferreira's popularity, and also reflected the unpopularity of the military rulers.

AMERICAN TOPICS

New York Pay Phone Now Takes Quarters

For years the 10-cent telephone call from a pay phone has been a bargain in New York state, a relic of the days of 3-cent postage stamps and 10-cent subway rides.

But beginning June 29, pay phone calls will cost 25 cents, the first raise since 1951. The Public Service Commission, which approves the rates, does not make hasty decisions. Before that, telephone rates had been fixed at 5 cents since 1906, when the first pay phone was introduced in the city. Pay phones then cost 3 cents a quarter in 19 other states and 20 cents in 13 states.

But in New York state still has one phone bargain. Local calls can be made for 5 cents in a stretch on the Massachusetts border operated by a small independent telephone company.

Companies Research Tobacco Substitutes

U.S. manufacturers are speeding up research on cigarettes with no tobacco or with reduced tobacco in an effort to protect their sales, according to federal officials.

The Department of Health and Human Services says it is getting a lot of public inquiries about non-tobacco cigarettes, and meanwhile, imports are looking to increase sales.

One tobacco-free brand made in Argentina is being sold widely in California, and an Indonesian import that combines tobacco and cloves is also gaining popularity among young smokers.

Notes on People

If the State Department remembers Alexander M. Haig Jr.'s tenure as secretary of state, it's not letting on in a 154-page document titled "Realism, Strength, Negotiation: Key Foreign Policy Statements of the Reagan Administration." There is not one reference in the collection to Mr. Haig or any of his foreign policy pronouncements during his tenure from January 1980 to July 1982.

Velma Margie Barfield, 51, convicted of poisoning a male friend and her mother, is to be executed Aug. 31 in North Carolina. She would be the first woman executed in the United States in 22 years.

"This place is getting to be like a cookie farm," Senator Barry Goldwater, the Arizona Republican, complained last week as the Senate prepared to adjourn at 9:01 P.M. in the middle of a debate on a military spending bill. Mr. Goldwater said he was ready to go on, although he'd been at work since 7 in the morning. "I can remember when we used to work all night," he groused.

The United States' largest Protestant denomination, the Southern Baptist Convention, has elected a former vice president of the Moral Majority as its new president. He is Dr. Charles F. Smiley, pastor of Atlanta's First Baptist Church, who is known nationwide for his syndicated TV ministry.

Officials Confront Squatters in Alaska

Trespassing and the unauthorized use of public lands have long been a back-burner issue in Alaska, whose area is one-fifth the size of the rest of the United States. But officials now find themselves confronting squatters as they carry out land transfers under the Alaska Statehood Act and the Alaska Native Claims Settlement Act of 1971.

Many cabins were built years before the federal government began transferring land to the state and to corporations run by native Eskimos, Aleuts and Indians. Few people cared about squatters' living illegally far away or hunters and fishermen in the wilderness.

Some officials estimate there are more than 2,000 cases of unauthorized land use, and the issue was highlighted last year when the disclosure that Governor Bill Sheffield was part-owner of a duck hunting shack in a state waterfowl refuge. Other shack owners included an Alaska Supreme Court justice and at least one Federal Bureau of Investigation agent. On the advice of the state's attorney general, the governor gave up his partnership.

Federal agencies control 255 million of Alaska's 375.3 million acres (150 million hectares). The state controls another 78 million acres; private owners, including Alaska native corporations, have the rest.

In Chicago, Sears Closes Original Store

Sears, Roebuck & Co. has closed its original retail store in Chicago because the outlet, opened in 1925 and the company's headquarters for 48 years, has operated at a loss for seven years, officials said.

The store, which closed Saturday, offered appliances, televisions and air conditioners, as well as surplus merchandise at discounts. It was the company's national headquarters until 1973, when corporate offices were moved to the downtown Sears Tower. Store sales began declining that year.

The retail store had been losing money since 1977 and "the trend was accelerating at an alarming rate," according to a spokesman. Sears' national catalog merchandise-distribution center is to fill the space vacated by the retail store. Sears operates 20 other stores in the Chicago area.

Families of Utah Leukemia Victims Say Nuclear Tests Were Responsible

The Associated Press

SALT LAKE CITY, Utah — The surviving relatives of 10 leukemia victims have filed a federal lawsuit blaming the deaths on fallout from atomic tests in Nevada.

The suit was filed Friday in Salt Lake City on behalf of 19 relatives of 10 victims who had lived in the Utah town of Pleasant Grove. It does not ask for a specific amount for the survivors.

Last month, U.S. District Judge Bruce Jenkins ordered the federal government to pay damages in 10 of 24 representative cancer cases. The cases were selected from among 1,192 original plaintiffs who contended that atmospheric tests

between 1951 and 1962 caused cancer in themselves or their relatives.

The previous lawsuit was restricted to people living no more than 90 miles (145 kilometers) from the Nevada Test Site near Las Vegas. Former Interior Secretary Stewart Udall, a Phoenix attorney who was among plaintiffs' attorneys in the original case, said the lawsuit filed Friday was the first to involve plaintiffs living a greater distance from the blasts — 250 miles.

Wayne Owens, also an attorney in both cases, said that Pleasant Grove had a child leukemia death rate well over 10 times the U.S. average during the 1960s.

Mondale Avoids Running-Mate Talk But Lauds Ferraro as a Party 'Star'

By Bernard Weinraub
New York Times Service

NORTH OAKS, Minnesota — Walter F. Mondale has lauded Representative Geraldine A. Ferraro of New York as a "star" in the Democratic Party, saying that she has all the qualifications of a vice presidential candidate.

Mr. Mondale said he had stopped short, however, of discussing the vice presidency with Mrs. Ferraro, who visited him for 90 minutes Saturday to discuss the party's platform.

At a news conference after Mrs. Ferraro's meeting with Mr. Mondale at his home here, the two made it clear that her role as chairman of the Democratic Party platform committee would prevent for the next few weeks any direct talks on the vice presidency.

Mrs. Ferraro is one of several women who have been prominently mentioned as potential Mondale running mates, including Mayor Dianne Feinstein of San Francisco. Mr. Mondale announced on Friday that he would interview Mrs. Feinstein on Thursday, and Senator Lloyd Bentsen of Texas next Saturday.

Also, Mr. Mondale, who says he has enough convention delegates to win the Democratic Party's presidential nomination, challenged President Ronald Reagan to at least a half-dozen debates on specific issues, starting with arms control.

There was no immediate White House reaction to this specific request. At his news conference in Washington on Thursday, Mr. Reagan expressed his willingness to debate the Democratic nominee, and on Friday Mr. Mondale told an enthusiastic group of supporters in Houston that "the American people don't want just a debate, they want several debates," on such issues as economic policy, national security, foreign policy, environment, civil rights and "how to prepare our children for the future."

"It's the one environment where a candidate is really tested," said Mr. Mondale at a Houston news conference.

In response to a question, Mr. Mondale said the order of his interviews with potential vice presidential choices "was not significant."

Asked on Saturday if he had discussed the vice presidency with Mr. Mondale, Mrs. Ferraro said: "The issue did not come up. I'm here as head of the platform committee. I am still working with all of the other campaigns, and actually it would not be proper at this time to discuss it."

Mr. Mondale praised Mrs. Ferraro, a 48-year-old former prosecutor, and left open the possibility that he would soon discuss the vice presidency with her.

"She is one of the stars of our political party and one of the recognized leaders in the House, and that is obvious by the fact that she's been given this very important task of really defining the future, the spirit, the direction, of the Democratic Party," Mr. Mondale said.

"We agreed early that this task of chairing the platform committee required independence and we were not going to discuss the possibility of the vice presidency during this interval," he added. "It neither includes nor excludes her, and both of us understand that."

After listing his criteria for a running mate, including skills at working on Capitol Hill and diplomatic negotiations, Mr. Mondale was asked if Mrs. Ferraro met his qualifications. He responded, "Yes."

In her comments, Mrs. Ferraro said that she had sought to "reach out" to the two other Democratic presidential candidates, Senator Gary Hart of Colorado and the Rev. Jesse L. Jackson, and that they had reacted in a "very positive" way to having a unified platform. Mrs. Ferraro said, however, that she expected several minority planks.

Hart Won't Share Delegates

Senator Hart renewed his determination to continue his fight for



Geraldine A. Ferraro



Dianne Feinstein

the Democratic presidential nomination Saturday and refused a demand from the Jackson camp to share any delegates. United Press International reported from Los Angeles.

Speaking to the California delegation to next month's Democratic National Convention, Senator Hart said "the one thing you have to know about me is I don't quit, and neither do you." He added, "Beneath this nice-guy exterior is a pretty tough cookie."

Senator Hart won 205 of the

state delegates to Mr. Mondale's 72 and Mr. Jackson's 29. Another 39 unemployed slots will be filled by elected officials and party leaders.

Mr. Jackson's state campaign chairwoman, Maxine Waters, called on Senator Hart Saturday to share some of his delegates with Mr. Jackson, who she said received 21.1 percent of the primary vote but only 9 percent of the state delegates. Senator Hart refused, saying any "procedural changes" should be considered at the convention in San Francisco.

Issue of Alien ID Card Swept Away By Tide of Emotional House Debate

By Karen Turnulry
Los Angeles Times Service

WASHINGTON — To Parren J. Mitchell, the black Democratic congressman from Maryland, the vision of a national computer identification system evoked haunting memories of the times he had been under police surveillance for civil rights activities during the early 1970s.

Representative Norman Y. Mineta, Democrat of California, solemnly recounted his fear that future generations of Americans could be rounded up and imprisoned merely because their ancestors had come from a certain country — as he and thousands of other Japanese-Americans were during World War II.

And to Representative Mickey Leland, a black Texas Democrat, the proposal smacked of government spying. "I am tired of white people coming in to my district and studying my people," he said.

For a while last week, the House debate on the Simpson-Mazzoli immigration bill took an intensely personal turn.

At issue was a plan to set up a national identification system — a card that could not be counterfeited or some other sure-fire way of verifying that job seekers are U.S. citizens or otherwise entitled to be in the country.

The House ultimately rejected even a feasibility study of such a system.

But during the debate, the emotions of many House members provided a rare glimpse of the diversity of experience, rather than the political parties, that they represent. It reflected the often-submerged sensitivities of a nation in which there are dozens of major religions and the census counts 18 races.

As House members took turns recounting their individual nightmares, those who listened grew hushed, forgetting for a moment that the hour was growing late and that they were eager to go home.

Representative Sala Burton, Democrat of California, who lost much of her family in concentration camps during World War II, told the House: "All of you can hear and see I have an accent. I was born in Poland." She went on: "The most detestable thing in the world is to have an ID card. The Jews in Europe, in Poland where I was born, were wearing yellow

stars. Is that what we really want?" Mrs. Burton escaped having to wear a yellow star herself because she was visiting San Francisco when the Nazis invaded Poland and did not return to her native land.

Representative E. de la Garza listed the names of the young men from his neighborhood in Mission, Texas, who had died in World War II and Vietnam.

"They come into my mind when someone says, 'You have to identify yourself beyond the norm to get a job,'" he said. "No sir, not after the supreme sacrifice of Joaquin Castro, Roberto Gonzales, Ricardo Alaniz, Daniel Garcia, Roberto Villarreal and Merced Salinas. Not after I look at their Purple Hearts on the wall am I going to ever yield."

After rejecting the identification card, the House approved establishing a toll-free number that employers could call to ensure that job seekers were not showing false Social Security cards.

Identification was only one of many emotional issues raised last week as the House debated the Senate-passed bill, which seeks to gain control of the nation's borders by imposing fines on employers who knowingly hire illegal workers.

The debate is certain to gain grow intense Tuesday as the House takes up another controversial provision, that of granting amnesty to illegal aliens who can prove they have been in the United States since Jan. 1, 1982.

Jackson Rebuffed

The Rev. Jesse L. Jackson said Saturday he wanted a meeting

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Monday with his two presidential rivals and the AFL-CIO president, Lane Kirkland, on the immigration bill. United Press International reported from Washington. He was immediately rebuffed.

"I am publicly requesting a meeting with Lane Kirkland, Walter Mondale and Gary Hart no later than his coming Monday to prevent the Simpson-Mazzoli bill from either being passed or going to conference," Mr. Jackson said.

A spokesman for Mr. Mondale said he was "going to be in Minnesota on Monday and won't be able to come back for a meeting," and an AFL-CIO spokesman said Mr. Kirkland was in Europe. The Hart campaign had no immediate comment.

Mr. Jackson said he was upset about an amendment that permits thousands of foreign workers to enter the country for seasonal jobs. "I am gravely concerned about the consequences of this legislation for our brothers and sisters of Hispanic descent in the Southwest," Mr. Jackson said.

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PAR JUGEMENT DU 9 NOVEMBRE 1981.
Le Tribunal de Grande Instance de Paris, dit que :

— "Les Magasins Réunis Étoile" ont commis des actes de contrefaçon en vendant dans ses succursales, ses agences et ses magasins, une série de sacs portant deux C entrecroisés représentant la marque figurative de CHANEL, soit C.

— Condamne, "Les Magasins Réunis Étoile" à payer à CHANEL la somme de 40.000 F à titre de réparation de préjudice résultant de l'atteinte de sa marque.

— Interdit aux "Magasins Réunis Étoile" de faire usage, sous quelque forme que ce soit et à quelque titre que ce soit, de ladite marque sous peine d'amende de 1.500 F par infraction constatée à partir d'un délai d'un mois à compter de la signification du jugement.

— Autorise la publication du dispositif du jugement dans trois revues ou journaux français ou étrangers, ou choix de CHANEL, et aux frais des "Magasins Réunis Étoile", sans que le coût global des publications dépasse la somme de 15.000 F.

— Condamne les "Magasins Réunis Étoile" à verser à CHANEL la somme de 4.000 F en application de l'article 700 du nouveau code de procédure civile.

— Condamne les "Magasins Réunis Étoile" aux entiers dépens.

PAR ARRÊT DU 9 MARS 1983, LA COUR D'APPEL DE PARIS :

— En toutes ses dispositions le jugement du Tribunal de Grande Instance de Paris du 9 novembre 1981.

Herald Tribune

Published With The New York Times and The Washington Post

Upward to a Summit?

Suddenly on Thursday the tone of Soviet-American relations changed, at least a bit and for a while. Within a period of a few hours, a Soviet spokesman and Ronald Reagan indicated new openness to a summit. Moscow tentatively softened its previous insistence that Mr. Reagan was unfit as a diplomatic partner, though it added an emphasis on "proper preparation" of a summit. The president eased his earlier demands that the agenda and results of a summit be precooked—a move that discomfited the diplomats, who do the preworking. He also hinted at a new readiness to negotiate limits on certain weapons in space.

Nothing of substance has changed. But there has been no summit in five years. Neither Mr. Reagan nor Konstantin Chernenko has met his counterpart. Summits, experience shows, can produce misunderstandings and disappointments. Still, it is unnatural and unwise for the top leaders to have no personal contact. It is not as though otherwise they will blow up the world. But the reasonable way to do business is to get together. When the two cannot even arrange a first meeting, that is widely taken as a sign of difficulty in the relationship and as a default on their shared obligation in the rest of the world.

Mr. Reagan had come under heavy pressure from friends, from those concerned with his reelection as well as from those apprehensive about the international drift, to do something to check the deterioration. He quietly let the Kremlin know he was considering such a signal, and the Soviet leaders responded, hours before he spoke, with their own public signal.

For Mr. Reagan it is, politically, a no-loss situation. If a summit comes and especially if it succeeds, he will be depicted as a man of peace. If there is no summit or if it fails, he can hope to blame the Russians. Why would the Russians seem ready to lend themselves to Mr. Reagan's election-year purposes? Presumably the answer lies in their assessment of the American political scene and of the international stakes as well.

Mr. Reagan may yet be revealed as simply the latest president to believe that his personal powers of persuasion could produce the Moscow breakthrough that has eluded his predecessors. It is a temptation that a prudent president will hold in check. But that is for the future. For now, it would be good if both sides, having pondered the tension between them, were to study how a summit could reduce it.

—THE WASHINGTON POST

Mrs. Gandhi's Version

The bloody fighting between the Indian Army and Sikh extremists in the Punjab left the rebellious state subdued, its Sikh majority stunned by the show of force that took at least 500 lives. Elsewhere, violence has been contained. To this extent, Prime Minister Indira Gandhi can claim vindication.

But only to this extent. Mrs. Gandhi is left with a credibility problem that raises doubts about the future—especially leading into a national election by the end of the year.

The credibility problem is serious. For eight days after the action, the Punjab was closed to journalists. When foreign reporters finally were admitted Thursday, they were forbidden to take photographs or question the briefing officers. Without independent assessment of New Delhi's version of the events in Amritsar, questions persist about the number of casualties, the scale of the assault and the true circumstances of the death of Jarnail Singh Bhindranwale, the Sikh extremist leader.

India is not the first democracy to seal off a battlefield. Britain set the dubious precedent in the Falklands war, followed by the United States in Grenada. In each instance, any benefits to security were far outweighed by losses in credibility. Was the use of force in the Punjab proportionate to the challenge? India's gener-

als assert that a siege was impractical and that "flushing out" 2,000 Sikh militants was possible only by frontal assault. Tear gas grenades bounced off brick-in windows, they say, and when an armored personnel carrier entered the compound, the defenders struck back with sophisticated anti-tank rockets.

All this may be so. But India deserves to be judged by its own democratic standards. From the outset, Mrs. Gandhi has insisted that her purpose was to hold India together and block a breakaway movement in the Punjab. Crushing the militants is not enough. Without serious negotiations with Sikh moderates, the fertile Punjab, India's granary, could become another Northern Ireland. Yet the prime minister appears to disdain conciliation.

Of 700 million Indians, only 2 percent are Sikhs, and most of them live in the Punjab. Hindus are rallying to Mrs. Gandhi, their fervor increased by rumors that Moslem Pakistan may have had a hand in arming the Sikhs. If the prime minister exploits this, she may win an election and jeopardize Indian unity.

Like the Golden Temple at Amritsar, India has been mauled by the effects of its army's assault but remains intact. Mrs. Gandhi's formidable task is to keep it that way.

—THE NEW YORK TIMES

Population Policy Fiasco

White House officials have drafted a position paper for the coming International Conference on Population that marks a sharp reversal of U.S. policy on population aid. If the draft becomes official policy, the United States will have succeeded in embarrassing many of the friendly nations gathering in Mexico City in August. It will also have turned its back on an urgent global problem.

The paper denies that the population boom is a major source of economic and social stress in developing countries. Instead, blame is laid on centralized economic policies in those countries and "anti-intellectualism" in the West. Growth-oriented economic policies and rapid resource development, rather than family planning, should be primarily relied upon to reduce population growth, the argument runs. Moreover, it continues, the United States, which has long refused to fund abortion programs, should now stop all population aid to governments or agencies that include abortion in their own programs—a rule that would end most U.S. population control aid.

It is true that economic progress and population control go hand in hand, especially when economic benefits are broadly distributed. But, as a new study by the Rockefeller Institute and National Academy of Sciences shows, effective birth-control programs are the most important check on population growth. A major reason why industrial progress can-

not be relied upon is that the population base and rate of growth in countries now developing are vastly higher than those of Western countries in their pre-industrial period. Four years ago, the world had 2 billion people. Today, thanks to declining mortality and the exponential nature of population growth, there are 4.7 billion people. Even with declining rates of growth, the next billion people will be added in 15 years—90 percent of them in developing countries already struggling with crushing social and economic problems.

The irony of the proposed U.S. policy reversal is that it would come at a time when most developing countries have intensified their commitment to family planning programs. Rafael Salas, executive director of the UN Fund for Population Activities, observes that this interest now transcends religious, social and cultural differences. Moreover, more family planning aid—which is still not available to hundreds of millions of women who want it—will reduce current reliance on abortion throughout the developing world.

As California governor Ronald Reagan urged the citizens of his state to recognize the misery caused by rapid population growth and the obligation of the United States "to credibly lead other parts of the world toward population stabilization." Ten years later neither the misery, nor the obligation, has diminished.

—THE WASHINGTON POST

Other Opinion

Reagan's 'Adroit Turnaround'

President Reagan has executed an adroit turnaround. He has made it sound as if his bags have been packed ever since he took office. The only reason there hasn't been a summit meeting is Soviet obduracy.

Whether the Russians would have agreed to a meeting, no one knows. Mr. Reagan had

demanded assurance of success before a meeting could be held. (This, as Senator Howard Baker said Tuesday, is circular reasoning.) Does Mr. Reagan's turnaround come too late? Coming as it does only months before he seeks reelection, he risks earning the scorn that Churchill heaped upon an adversary. "He has the luxury of an accommodating conscience." —The Baltimore Evening Sun.

FROM OUR JUNE 18 PAGES, 75 AND 50 YEARS AGO

1909: Tsar, Kaiser Meet in Finland

ST. PETERSBURG — The meeting between the Tsar and the Kaiser took place at Björkö, Finland, on board the Imperial Russian yacht Standard (on June 17). The interview will have great effect on the political questions at present awaiting solution. Germany has the intention of giving Russia her support in Turkey. In spite of her lack of direct interests in Crete, the only way Germany could have any influence on the settlement of the question would be by opposing dismemberment of the Ottoman Empire. In regard to the Persian question, Germany, in view of the "entente" between Russia and Great Britain, will confine herself to taking a correct attitude.

1934: After the Mussolini-Hitler Talks

ROME — Although information about the encounter in Venice between Premier Mussolini and Chancellor Hitler still appeared somewhat contradictory, it was agreed that the two dictators had reached accord upon a common opposition to the new system of alliances in which France and Russia play a leading part. The effect of such an alignment at Venice would mean the removal of Italy and Germany from participation in the latest European political development. The principal feature which distinguishes the present groupings from those of the past consists in the presence of Russia as co-participant with France and the countries of the Little Entente.

Reagan Is Willing, but He Needs a Plan

By James Reston

WASHINGTON — In his news conference Thursday, President Reagan said he was "ready, willing and able" to meet with the Soviet leaders at a summit or anywhere else.

Leaving aside the question of whether he is "ready" or "able" to discuss the intricate questions of nuclear arms, the Middle East and world trade with Konstantin Chernenko, Mr. Reagan has made it clear that he is "willing" to listen to his aides and his pollsters, who are telling him that this statement with the Russians is bad election politics, and that he is also willing to listen to his allies, who are telling him that failure to talk to Moscow is bad diplomacy.

The Republican leader of the Senate, Howard Baker of Tennessee, and the Republican chairman of the Senate Foreign Relations Committee, Charles Percy of Illinois, talked to the president about this recently, and like Prime Minister Pierre Elliott Trudeau of Canada, argued that maybe the president should change his tune and agree to meet with the Soviet leaders.

Mr. Reagan's response at his latest news conference was a masterpiece of public diplomacy and presidential politics. Twenty-one of the 35 questions put to him asked about his conditions for talking to Moscow. He brushed them all aside. He would, he said, go anywhere and talk about anything, without conditions. "Anything that might clear the air and create a better understanding between us, that's fine," he said.

So he established a nonpartisan committee to study the question and arranged with Governor Thomas E. Dewey of New York, his opponent in the 1944 election, to cooperate in the formation of the United Nations. He wanted to avoid the partisan struggles that led to the collapse of the

"As far as we are concerned," he said, "we do have the desire to reach agreements with the United States. . . . The possibility of agreement exists. . . . One should begin now with such preparations. We have a huge number of questions which could be examined and prepared in order to present them at a summit meeting."

This is a switch in Moscow, and the question is how it came about. The guess here—and it is only a guess—is that the Russians have decided reluctantly that Mr. Reagan is probably going to win re-election in November and they will have to deal with him for another four years, and so should begin to talk to him now.

Similarly, Mr. Reagan seems to have decided that his confrontational attitude toward Moscow was beginning to frighten both Americans and allies, and that he should consider reconciliation. At least he is beginning to talk about talking.

This is quite different from the vicious propaganda from Washington and Moscow in the recent past. The question now is how to proceed. During the last days of World War II and during the presidential campaign of 1944, President Roosevelt decided that the organization of world peace was too important to be left to the clash of partisan politics.

So he established a nonpartisan committee to study the question and arranged with Governor Thomas E. Dewey of New York, his opponent in the 1944 election, to cooperate in the formation of the United Nations. He wanted to avoid the partisan struggles that led to the collapse of the

League of Nations. This is not a bad model for this delicate point in U.S.-Soviet relations.

The Russians would like to play off the Democrats against Mr. Reagan, who is not their favorite character, and Walter Mondale would no doubt prefer to run against Mr. Reagan's stalemate with the Russians. But now that the president is offering to talk to Mr. Chernenko, and vice versa, the Democrats can no longer blame Mr. Reagan for accepting the negotiations they have denounced him for rejecting in the past.

But is Mr. Reagan really "ready" and "able"? He has made a brilliant political and tactical maneuver. He was in trouble, not primarily because his policies were wrong—even the allies did not question his emplacement of missiles in Europe to maintain a balance of power—but because his rhetoric was too strident. This he has now corrected, and in his news conference he almost seemed to be imploring the Russians to end the stalemate and talk about anything anywhere, a willingness that will help him in his campaign for re-election.

Mr. Reagan has at least opened up the door to the Russians and says he is waiting for somebody to "come up the steps." But if the Russians do, who will be there to negotiate with them? The American experts on Soviet policy—George Kennan, for example—are no longer in Washington. If negotiations really do start, it is not clear who will meet with Anatoli Dobrynin and Andrei Gromyko, who have been dealing with U.S.-Soviet relations for 40 years.

But at least the talk about talks has started. That's the main thing.

The New York Times

Steel Quotas Can Slice Two Ways

By Hobart Rowen

WASHINGTON — You do not have to be much of a cynic to look at things this way: First, the summit leaders make a firm anti-protectionist declaration, as they did a year ago at Williamsburg. Then they go home, and do the opposite.

That is what happened in the spring of 1983, when the United States adopted new quotas and tariffs on the importation of special steels from Europe. (The Europeans were hardly better on a range of items.)

Now, the ink is barely dry on the London summit declaration, evoking the same dying spirit of free trade, when circumstances again are moving the United States toward greater import protection for steel.

More steel quotas would be wrong, unhealthy, counterproductive, and a denial of what is supposed to be a main achievement of summit declarations. Yet, unless President Reagan shows extraordinary courage in an election year, the steel industry is likely to get its way.

The American steel industry is now operating at about 75 percent of a sharply reduced capacity. About half of the 400,000 steel union members are out of work. That is a made-to-order issue for the Democrats, and potential candidate Walter Mondale is exploiting it to the hilt.

Naturally, Mr. Mondale is getting support from political leaders in the steel states. "Our steel industry needs and deserves time to respond to the challenge of modernization without being handicapped by unfair competitive practices," said Governor Richard L. Thornburgh of Pennsylvania.

What irony! The industry has had nothing but time to make itself more efficient, and has done nothing but squander it. It has diversified into all sorts of activities—shopping centers, savings and loans institutions.

In his best-selling book "New



"Ronald's charming, but what he sees in her I'll never know."

American Frontier," Robert Reich reviews the pattern. By the mid-1960s, the basic industries in the United States had lost the habit of competing. U.S. Steel was the leader in its industry. General Motors in automobiles. RCA in electronic products, and so on. And the industry-wide unions successfully negotiated a three-year contract, with the escalating costs passed on to consumers. A benign Federal Trade Commission guarded against price-cutting to retailers and dealers.

The steel makers knew that their 1950s-style open-hearth furnaces were less efficient than the new oxygen furnaces coming into being elsewhere in the world. There were also improved production techniques.

But it would have been difficult and costly for U.S. firms to fit the new technology into their old plants without completely suspending production and redesigning the plant site," Mr. Reich says. "They saw no reason to go to this trouble and expense since industry profits could be maintained through careful coordination among producers."

This complacency was first jarred

in the late 1960s when the more efficient Japanese industry began to invade the U.S. market. In recent years, less developed countries such as Brazil, South Korea and Mexico began to be important producers of steel—and while American policy-makers in concert with the industry turned their attention to finding off Japanese and European steel competition, the developing nations grabbed off big pieces of the market.

Today, foreign suppliers enjoy 26 percent of the U.S. market, even though some of them are subject to "voluntary restraints." And the nation is confronted with a demand by Bethlehem Steel Corp. for the United Steelworkers of America, to limit imports to 15 percent of total consumption.

The International Trade Commission, in a 3-2 vote, decided that the Bethlehem-USW petition was valid, and will recommend some form of relief to Mr. Reagan. He will be required—about a month before the election—to decide what to do.

The president could reject the recommendation. But the betting is that

political imperatives will weigh more heavily on Mr. Reagan than his own free-trade instincts or his pledges to summit partners.

Nonetheless, the office of Trade Ambassador William Brock is likely to make the case that new protection will boost prices, making it even tougher for the auto industry and other industrial steel consumers. Already, as Mr. Brock has pointed out, substitution of plastics for steel in cars has been as significant a factor in the steel industry's problems as import competition.

Another threat to the big companies is the success of the so-called minis in the United States. They are unencumbered by the high union wage levels, which run 70 percent over the average for the rest of U.S. manufacturing industry.

Couple that with the probability that new import restrictions will stimulate foreign investment in steel production in the United States, especially from Japan. One can argue that in demanding temporary protection, the steel industry is completing its kamikaze run.

The Washington Post

Saipan: How the End Began on the Pacific Front

By Robert Sherrod

WASHINGTON — Forty years ago last Friday, on the island of Saipan in the Marianas, the Japanese began to lose World War II.

Nine days earlier, I heard the news of the Normandy landings about 7:30 on a velvet evening while sitting underneath palms with about 400 sailors and marines who were waiting for a movie to begin. The place was Eniwetok, westernmost of the Marshall Islands, which had been wrested from the Japanese four months earlier. A naval lieutenant, Robb White, mounted the wooden platform in front of the screen and said: "Here is a piece of news. The invasion of Europe has just been announced." The men stood up and gave a brief, noisy cheer. The sooner the European war ended, the sooner the Japanese were likely to collapse and everybody could go home.

Events were on the march that would hasten that collapse. The miracle was that the American war machine was churning out enough ships and planes and trained men so that the Pacific could have its most important invasion only nine days after Normandy. Eniwetok was the rendezvous for the transports that would land the marines on Saipan on June 15, part of the 600 vessels in the 5th Fleet. The fleet commander, Admiral Raymond A. Spruance, was ashore; at the new officers' club bar, he told me he thought the operation would be tough, but he was confident.

Already plotting westward was Vice Admiral Marc Mitscher's Fast Carrier Task Force—15 carriers, 7 battleships, 21 cruisers and 69 destroyers—which would shield the invasion from Vice Admiral Jisaburo Ozawa's Mobile Fleet, which

was itching for the "one great battle" that would destroy Admiral Spruance and his fleet. Prime Minister Hideki Tojo personally guaranteed the navy that the army (under Lieutenant General Yoshitsugu Saito, with 31,000 troops) would successfully defend Saipan.

At dawn on June 15, Saipan looked like a low-lying prehistoric monster, roughly 5 miles (8 kilometers) wide, 15 miles long. The guns of our old battleships and cruisers began rumbling with 6- to 16-inch shells preparatory fire at 5:30; planes from small escort carriers laid down bombs on the beaches as the amphibious tractors loaded with marines of the 2d and 4th Divisions prepared to violate the sacred soil of Japan's inner defenses. Tokyo was only 1,500 miles to the north—in range of the new B-29 planes that Boeing was turning out in large numbers.

Saipan proved to be tough, as Admiral Spruance had predicted. Cleverly concealed machine guns, mortars and small arms took a heavy toll of the marines in the water and after they had hit the beach. But they charged forward, securing two beachheads from which they would not be dislodged. By the end of the second day, they had suffered 4,000 casualties, and Lieutenant General Holland Smith of the marines called for the reserves, the army's 27th Infantry Division. By the end of the battle, July 9, about 3,500 Americans lay dead, and 13,000 more were wounded.

Nearly all of Japan's defenders fought to the

death; as a crowning horror, hundreds of Japanese civilians threw themselves and their children off cliffs at the northern tip of Saipan as American riflemen watched in bewilderment.

On June 19, Admiral Ozawa got his great battle, but it did not come out the way he had expected. He had counted on land-based planes on Guam and other Japanese-held islands to counteract America's 956-to-473 advantage in carrier aircraft. But they failed to materialize; Japan lost more than 400 planes and nearly as many aviators. (American losses were 130 planes and 43 aviators.) Japan lost only three of its nine carriers (two of them to submarines), but the heavy toll of pilots joined by the carriers had become meaningless and would not figure in the war again except as deceptions in the Leyte Gulf battle four months later.

The loss of Saipan rocked Japan, causing the government to fall July 16. The United States Strategic Bombing Survey found after the war that "almost unanimously, informed Japanese considered Saipan as the decisive battle of the year." The conflict ended for another year, through Guam, Tinian, Peleliu, Leyte, Luzon, Iwo Jima, Okinawa, through kamikaze attacks, the incineration of Japanese cities and, eventually, Hiroshima and Nagasaki—by planes flown from the Marianas. But after Saipan, as in the case of Normandy, there would never again be a doubt about the outcome.

The writer, who covered World War II for Time and Life magazines, is author of four books on the Pacific war. He contributed this comment to The New York Times.

Presidency: Why the Best Don't Apply

By William Pfaff

NEW YORK — The television industry is the chief beneficiary of the present American system for electing a president. The profits from politics roll in. The nation pays. The special interests pay. The candidates pay. The industry collects. The country is worse off for it.

This year's campaign for the presidency will spend in the billions of dollars, most of it, by far, on the purchase of television time. (In 1980 the total campaign expenditure was \$1.2 billion.) The result, so far this year, has been to eliminate all the Democratic candidates except Walter Mondale, a small man who could, no doubt, prove a servicable president. The modern standard to be met is not high.

The indications, however, are that the country will re-elect Ronald Reagan, a decent and thoughtful man (as James Reston admirably put it a few weeks ago, "an authentic phony who honestly believes he's sincere"). He heads an administration managed in matters of foreign and security policy (leave aside domestic affairs and the ticking bomb of the deficit), by well-meaning businessmen in over their heads, counseled by ignorant ideologues. It is a dangerous administration, which has damaged the U.S. position in the Middle East and Central America, and has unnecessarily and uselessly embittered relations with the Soviet Union. But Mr. Mondale has yet to convince the public that he would do any better.

The lesson of the Democratic campaign has been that the American presidential nomination system does not find and nominate the best men. It actively discourages the best from entering the race. The supposed democratizing of the primaries has, in practice, limited the race to men sufficiently ambitious and well-connected (financed by whom?) to devote two or more years of their lives to the mere quest for nomination. Are they the best the republic can offer?

The idea is absurd. The best men, and women are at work. The best are not, perhaps, that deviously ambitious. The best may not want the job the presidency has become. It is the presidency that needs them.

The difficulty in reforming the system is great, and the Democratic Party (is where it is today in part as the unintended consequence of well-meaning reforms. Yet there is surely something to be learned from the experience of virtually every other mature democracy on earth. To begin with, they either tightly control or completely forbid the purchase of broadcasting time for the promotion or advertising of candidates for public office.

That means a reduced influence of money upon politicians. Presently, it seems likely that the Senate race for the North Carolina seat held by Jesse Helms will, by November, have cost something like \$20 million. A candidate for Parliament in Britain currently spends, on average, something like \$4,000 on his or her campaign. Weibach, Helms goes, is likely to compare favorably with what the U.S. Senate—and the people—will get from the money spent in North Carolina. And North Carolina is a single, albeit expensive, example. Without television advertising, a candidate has to rely on qualities more substantial than the "image" he or she can convey in a 30-second commercial or a stage presentation.

In nearly every other mature democracy, access to television is limited and equitably distributed among the candidates. (The difficulty posed by crank candidates has several practical solutions, as foreign experience proves.) Often there are restrictions on the artificial candidates may employ. In France, for example, only direct studio statements or interviews are allowed—no gimmicks or dramatizations are permitted.

The television companies have this idea, of course. Politics and the presidency rank with professional football as a source of their profits. It is, however, an idea in the wind. The American Enterprise Institute and the German Marshall Fund of the United States have just sponsored a useful comparison of national practices, which provides a devastating judgment on the American system.

It is time that the networks give back to the American people something serious in exchange for the richly profitable gift that has been made to them to exploit the public airways. One easily forgets that there was a time, not so long ago, when the major American networks sustained great orchestras (the NBC Symphony Orchestra, created expressly for Arturo Toscanini) and supported serious drama companies (among them Orson Welles's original Mercury Theatre) out of their conviction of public obligation. It is unimaginable that they would voluntarily do such things today. Greed now is the rule, and serious broadcasting has been handed off to the tax- and citizen-financed Public Broadcasting System.

A second reform of the system would limit the timespan of campaigns. This is more difficult in the United States than in countries with a parliamentary system, but both the primary period and the presidential campaign itself could be shortened. A third reform, already undertaken in the Democratic Party, where it was most needed, would restore the power of the convention itself and reduce that of the primaries.

To do these things would open once again a second road to the presidency. A man or woman might be chosen who has not devoted too many years to chasing the office. Doing one's own work and demonstrating serious accomplishment, moral stature and intelligence, might again be seen as major qualifications.

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Reagan and Arms Control

In response to the opinion column "No End of Exclusion, No Talks, No Jokes" (May 28) by Tom Wicker.

Mr. Wicker is certainly entitled to his own opinion regarding the prospects for arms control but he is not entitled to his own facts. He contends that President Reagan "halted talks on a threshold test ban treaty" when, in fact, the threshold test ban treaty was signed in 1974. Although the treaty has remained unratified through three succeeding administrations, President Reagan has proposed that the United States and the Soviet Union initiate discussions on improvements in the verification pro-

visions of the treaty as a preliminary step toward ratification, a proposal the Russians flatly rejected.

Mr. Wicker goes on to claim that President Reagan "rebuffed the Nitzsche-Kvititsinsky walk in the woods" compromise on intermediate-range missiles." Even Ambassador Kvit-

itsinsky admits that it was the Russians who rejected the proposal: "This package was unacceptable to the Soviet side, and Mr. Nitzsche was told that it would either be rejected altogether or severely amended." ("The Soviet Negotiator Blames America for a Failure," *IBT*, Jan. 13.) Unsatisfied with these distortions, Mr. Wicker continues: "They [the proposed strategic arms reductions] have been sharply reduced Soviet land-based, but not U.S. sea-based missiles." Here again he is ill-informed. The U.S. proposal would be a one-third cut in each side's ballistic missile warhead level. This would, of necessity, require significant reductions in U.S. sea-based

missile warheads, even if the United States eliminated all of its current land-based missiles as well.

JOSEPH D. LEHMAN, Public Affairs Director, Arms Control and Disarmament Agency, Washington.

A Vote for the Shuttle

I do not understand how Roger C. Molander (May 18) can mock necessary U.S. defense efforts. Further development of the space shuttle, supported by satellites and ground systems, seems an excellent idea.

BODIL B. BURE, Copenhagen.



A Soweto resident prepares to stone a police vehicle shortly after a commemoration service at Regina Mundi Cathedral.

Anniversary of Soweto Riots Is Marked by Some Clashes

Reuter

JOHANNESBURG — Black townships throughout South Africa were reported quiet by police Sunday, after sporadic clashes Saturday during the annual day of mourning for more than 500 people killed in riots in 1976.

A black man was killed in an explosion Saturday at the magistrate's court in the small town of Bethal, 75 miles (120 kilometers) east of Johannesburg.

Police said Sunday the victim may have planted the bomb himself, but it was unclear whether

the incident was connected with the anniversary. The court building was not seriously damaged.

Police used tear gas Saturday as a crowd of about 3,000 left after a four-hour service in Soweto, the starting point of the 1976 rioting that spread throughout the country and lasted several months.

About 200 youths chanted and waved clenched fists as they left the Regina Mundi Cathedral, and a few stones were thrown. Police, backed up by armored personnel carriers and dogs, responded immediately by firing tear gas, and four persons were arrested.

The 1976 violence was sparked by a government edict that some school subjects be taught in Afrikaans, the language of South African whites of Dutch descent.

Police said there were fewer serious incidents Saturday than on several previous anniversaries.

The most serious clash was reported in the Cape Province town of Graaff-Reinet, where a group of about 60 youths pelted police with stones. Four policemen were slightly injured and 27 persons were arrested, police said.

Police, departing from previous practice, adopted a high profile this year at memorial services in Johannesburg's satellite township of Soweto, where an estimated 1.5 million blacks live.

"To the past we used to show a low profile," said Brigadier D.D. Jacobs, the Soweto police commander. "This year we decided to show our presence to see if it can prevent trouble."

A black civic leader, Nihato Molana, criticized the show of force Saturday. Brigadier Jacobs said police had not used any more men than in previous years.

Japan Attempts to Curb Its Booming Sex Trade

Residents Call for Stricter Legislation In Tokyo's Profitable Red-Light Area

By Clyde Haberman

New York Times Service

TOKYO — The Japanese government has set out, as it does occasionally, to do battle against Japan's prosperous sex industry.

Officials do not want to do away entirely with the selling of sex. It is a business with a long, even honored, history in this country, which once referred to its red-light districts as "flower and willow worlds."

But an explosion of often seamy sex-related establishments has hit Japan in recent years. Despite a traditional tradition of tolerance, politicians and bureaucrats have begun to insist that a crackdown is overdue.

In the last few months, police officers in Tokyo have raided massage parlors and Turkish bathhouses. A group of storekeepers and property owners called for tougher laws. Residents of Tokyo's largest red-light district, Kabukicho, marched in the streets demanding that something be done about its many sex emporiums.

The cabinet of Prime Minister Yasuhiro Nakasone submitted bills that would give the police more control over sex-oriented shops and movie houses. They would also prohibit them from hiring minors and from operating within 200 yards (182 meters) of schools and libraries.

What especially troubled the prime minister and other conservative politicians was the extreme youth of many women working in such establishments. Police raids on 13 Tokyo "dating clubs" and so-called no-pants coffeehouses turned up female employees still in junior high school.

When sexually explicit magazines for teen-age girls began to flood bookstores, Mr. Nakasone told parliament that something had to be done to "protect young people from a mistaken, wicked environment."

Some pornography sellers decided self-censorship made more sense than waiting for the authorities to take action. Several publishers of magazines oriented toward teenagers dropped offending articles on their own.

The operators of pornography movie houses, who control a sizable share of Japan's estimated 2,070 theaters, took down large, graphic photos from their street advertising displays.

For all the government's tough talk, few people expect a great dent to be made in the sex industry's profits, much of which supposedly goes to organized crime clans known as yakuza. Some estimate that 70 percent of the sex-related businesses in neon-cluttered Kabukicho have yakuza connections.

Japanese attitudes to sex, for sale and otherwise, are a study in contrasts. Surveys, for example, suggest that young Japanese are far more hesitant about sex than young people in Western nations.

In one government report, only 12.7 percent of women between the ages of 15 and 23 said they had had sexual relations. For men in the same age bracket, the figure was 18 percent. Yet couples openly walk into the country's thousands of love hotels, whose basic purpose is hardly disguised by garish exteriors designed to look like mini-Kamadas and Cinderella castles.

Prostitution is officially banned, but it flourishes in the 1,695 Turkish bathhouses registered by the National Police Agency. Moreover, foreign women are beginning to take jobs increasingly considered undesirable for Japanese women.

Last month the Justice Ministry reported that 2,339 foreigners with tourist visas, a record number, were found to be working illegally in Japan last year. Most were South-East Asian women employed as hostesses and brought to Japan by yakuza.

It has been suggested that this importation of women was intended to offset setbacks suffered by travel companies specializing in packaged "sex tours" for Japanese businessmen. Trips are organized to South Korea, Taiwan, the Philippines and Thailand for the express purpose of visiting brothels and private clubs.

The plaudits of Japanese men storming through their capitals have offended many people in Southeast Asia. Some leaders expressed their displeasure directly to Prime Minister Nakasone when he visited the region in 1983. Perhaps as a result, this segment of the sex industry is now believed to be operating more discreetly.

Pretoria Pushing Hard for Pacts With Neighbors

By Glenn Frankel

Washington Post Service

PRETORIA — Many South African analysts and officials believe that the key to the country's future is a growing network of formal agreements with neighboring black states.

The country, which already has nonaggression pacts with Swaziland and Mozambique and a military disengagement treaty with Angola, is pushing neighboring Lesotho and Botswana to sign similar agreements. Officials say they also eventually would like to convince Zimbabwe, the region's most influential power after South Africa, to sign such an accord.

The ostensible purpose of these pacts is to deny military bases and border access to black insurgents seeking to overthrow South Africa. But their real impact, analysts say, is psychological: to break the diplomatic barrier that has separated Pretoria from the rest of Africa since blacks took power in most of the continent in the 1950s and 1960s.

"These accords are much more than pieces of paper," said a South African diplomat. "To us they signify a new direction in Africa. What we want is normalization. We want trade. We want friendly and official relations."

The new South African diplomatic initiative is viewed here as a logical extension of Pretoria's previous emphasis on military pressure against neighboring states accused of harboring insurgents.

"Military means have paved the way for diplomacy," said Michael Hough, director of the Institute for Strategic Studies at the University of Pretoria. "What is new is that for the first time since the mid-70s South Africa can negotiate from a position of strength, and pragmatism has [overridden] ideological considerations for its neighbors."

Still, the new initiatives contain a strong scent of military and economic coercion. Botswana's president, Quett K.J. Masire, complained during a visit to Washington last month that the South Africans had hinted they might place troops on the border or

disrupt traffic and commerce if Botswana refused to sign a nonaggression pact.

Similarly, officials of Lesotho, which sources here believe is on the verge of signing a security pact, have accused South Africa of economic blackmail and of supporting anti-government dissidents.

R.F. Botha, the South African foreign minister, denied his government was attempting to force either nation into an accord. But officials here said they have lost patience with countries that are willing to reap the economic benefits of trade and commercial links with South Africa but treat Pretoria diplomatically as a pariah.

"It's not a question of standing behind them with a knife at their back," said one official. "But we have pointed out the realities of the situation, which is that we want normalization and we will reward those countries that enter into agreements with us."

Beyond the signing of security agreements, South Africa sees the eventual possibility of gaining formal diplomatic recognition and

opening embassies in neighboring nations. Officials talk of a "constellation of states" in which Pretoria would take its place as first among equals.

U.S. diplomats were instrumental in bringing Mozambique and South Africa together to negotiate their three-month-old agreement and have encouraged Pretoria to seek diplomatic rather than military solutions to regional problems.

South Africa has compelling domestic as well as international reasons for seeking formal accords. Written pacts help convince white voters, who are being wooed by the government's new conservative opposition, that there are, in the words of one analyst, "positive fruits to be gained from this process."

Officials believe the accords also serve to police South African blacks that violent struggle will not succeed in toppling the government or bringing about radical change.

Nonetheless, many analysts contend that South Africa's regional victories will prove short-lived if the government fails to reach accommodation with its own black majority. "It almost goes without saying these agreements make sense provided there is movement within South Africa as well," said John Barrett, director of the South African Institute of International Affairs.

Envoy Skips Talk After Soviet TV Requests Changes

The Associated Press

MOSCOW — A planned address on Soviet television by Sir Iain Sutherland, Britain's ambassador here, to mark the birthday of Queen Elizabeth II was canceled after Soviet authorities demanded changes that the envoy refused to accept, a British Embassy spokesman said.

The incident on Saturday followed similar episodes in the past year when the French and Japanese ambassadors scrapped plans to deliver televised speeches on their national holidays because of changes demanded by Soviet officials.

The embassy spokesman said Mr. Sutherland had refused to delete a passage that said that East-West relations would benefit "if all of us have access to accurate information, and if all members of society... can travel to each other's homeland."

Officials at Moscow's Television Center also told the ambassador he would have to delete a remark referring to Britain "welcoming the Soviet Union as an ally in the struggle against fascism" in 1941, the spokesman said. The Soviet media traditionally portray the Soviet Union as the main force in the defeat of Nazi Germany.

While foreign workers are entitled to the same pay and social benefits as the Swiss, many are seasonal workers or recent immigrants who are not allowed to establish households with their wives and children. Social ostracism is a subject of frequent unhappiness.

The influx of foreigners, many from such countries as Italy, Spain and Portugal, has made the Roman Catholic faith the country's majority religion. With the foreign residents, 47.4 percent of the population is Roman Catholic and 44.3 percent Protestant. Among the Swiss alone, the proportion is 50.4 percent Protestant and 43.6 percent Roman Catholic.

The pope warned the foreign residents that mutual prejudice impeded their integration into Swiss life, particularly when they pay no heed to local habits and customs.

Meredith Willson Dies; Composed 'Music Man'

New York Times Service

NEW YORK — Meredith Willson, 83, the author, composer and lyricist of the Broadway musicals "The Music Man," "The Unsinkable Molly Brown" and "Here's Love," died Friday of apparent heart failure in Santa Monica, California.

"The Music Man" won the New York Drama Critics Circle and Antoinette Perry awards for outstanding musical of the 1957-58 season. It and "The Unsinkable Molly Brown" were made into films.

Mr. Willson's credits as a composer also included the scores to the films "The Great Dictator" and "Little Foxes."

Born in 1902 in Masco City, Iowa, a town not unlike the setting of "The Music Man," Mr. Willson was an accomplished pianist and flutist by the time he graduated from his school. He studied at the Juilliard School in New York, then played with John Philip Sousa's band and the New York Philharmonic Orchestra under Arturo Toscanini before moving to Hollywood.

Grace Tully, Secretary To Franklin D. Roosevelt (WASHINGTON) (NYT) — Grace Tully, 83, a personal secretary to Franklin D. Roosevelt in his years as governor of New York and as president of the United States, died Friday after a long illness.

After Roosevelt's election as governor in 1928, she worked as an assistant to his longtime secretary, Margaret (Missy) LeHand. The two became close friends.

Miss Tully once said, "With the Roosevelts you weren't considered



Meredith Willson

'the help.' If you were working late, Mrs. Roosevelt would ask, 'Is that Tully's typewriter I hear? And they'd put another chair at the dinner table.'

Other deaths:
Philip Winston Pillsbury, 81, former president and chairman of the Pillsbury Co., Thursday of cancer in Minneapolis. He helped transform the grain company co-founded by his grandfather into one of the world's largest diversified food products concerns.
George A. Spater, 75, chairman of American Airlines from 1969 to 1973, Thursday at his home in White River Junction, Vermont. He took up a second career as a biographer and in 1978 was co-author with Ian Parsons of "A Marriage of True Minds: An Intimate Portrait of Leonard and Virginia Woolf."

Most Foreign-Trained Doctors Fail Test to Practice in U.S.

Washington Post Service

CHICAGO — More than 16,000 of 19,000 graduates of foreign medical school seeking to become doctors in the United States failed the most recent examination. The Educational Commission for Foreign Medical Graduates reported.

The failure rate in the test on Feb. 29 was disclosed Saturday by Dr. Samuel Asper of Johns Hopkins University, commission president, at the American Medical Association section meeting in Chicago.

Foreign graduates must pass the commission's test to get an internship or residency position in a U.S. hospital. Ordinarily, Dr. Asper said, the pass rate is 25 percent. In February, it was 14.5 percent.

The commission had announced that it would monitor people taking its test more closely. In July it threw out 10,000 test results because of evidence that as many as 4,000 applicants had bought or seen the exam in advance.

PERSONALITIES PLUS

MARY BLUME
IN THE WEEKEND SECTION
OF FRIDAY'S IHT

Pope Insists on Obedience by Priests Near Seminary of Rebel Archbishop

Reuter

SION, Switzerland — Pope John Paul II insisted on obedience from Roman Catholic priests to their local bishop and the Holy See in an address Sunday at an ordination service out far from the seminary of Archbishop Marcel Lefebvre, a French traditionalist suspended by the Vatican in 1976.

Archbishop Lefebvre, 78, was not on hand to hear the pope at an open-air service at Sion airport on the final day of the six-day papal visit to Switzerland. He later returned to the Vatican.

The rebel archbishop ordained 36 deacons and subdeacons recently at Ecône, near Sion, according to Swiss press reports, and the Vatican did not reply to a request for a meeting between Archbishop Lefebvre and the pope.

Archbishop Lefebvre was suspended from priestly duties by Pope Paul VI for ordaining priests in defiance of the Holy See. He offers over ecumenism, the Latin Mass and other reforms sanctioned by the Second Vatican Council.

Although Pope John Paul II told the archbishop in 1978 that he must abandon his opposition role, the French priest extended his activities in West Germany, France and the United States.

Pope Cautions Swiss
Henry Kamm of The New York Times reported from Lucerne, Switzerland.

The pope warned the Swiss people Saturday not to consider themselves "an island of safety in the midst of the threatening surge of the world." He urged them to live up to their humanitarian obligations to less fortunate people and nations.

He did so in two addresses, speaking to a large gathering of immigrant workers and political refugees and then delivering a homily at an outdoor Mass.

The Roman Catholic Church has been in the forefront in Switzerland in demanding full rights for more than a million foreigners who live in this country of 6.3 million and who have contributed significantly to the labor force.

"Everyone must become conscious of the fact that those who have come to this country are human beings," the pope said in the section of the address he delivered in Spanish. "It is important to discover always the human person before the worker."

"Mao is not made for work," the pope continued in Polish. "Work is made for man." In all, the pontiff

divided his address into 13 sections, each in the language of an immigrant group.

For most of the post-World War II boom years, the treatment of foreign workers has been a subject of intense discussion in Switzerland. Five national referendums have been held on whether to reduce the number of foreigners by immigration bans and deportation. All have been defeated.

While foreign workers are entitled to the same pay and social benefits as the Swiss, many are seasonal workers or recent immigrants who are not allowed to establish households with their wives and children. Social ostracism is a subject of frequent unhappiness.

The influx of foreigners, many from such countries as Italy, Spain and Portugal, has made the Roman Catholic faith the country's majority religion. With the foreign residents, 47.4 percent of the population is Roman Catholic and 44.3 percent Protestant. Among the Swiss alone, the proportion is 50.4 percent Protestant and 43.6 percent Roman Catholic.

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HIGHEST YIELDS to Average Life Below 5 Years

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100	Quebec Energy	10.00	100.00	10	10
100	Quebec Gas	10.00	100.00	10	10
100	Quebec Water	10.00	100.00	10	10
100	Quebec Telecom	10.00	100.00	10	10
100	Quebec Power	10.00	100.00	10	10
100	Quebec Energy	10.00	100.00	10	10
100	Quebec Gas	10.00	100.00	10	10
100	Quebec Water	10.00	100.00	10	10

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BANKING AND FINANCE IN LUXEMBOURG

A SPECIAL REPORT

MONDAY, JUNE 18, 1984

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Eurobond Business Recovers Ground

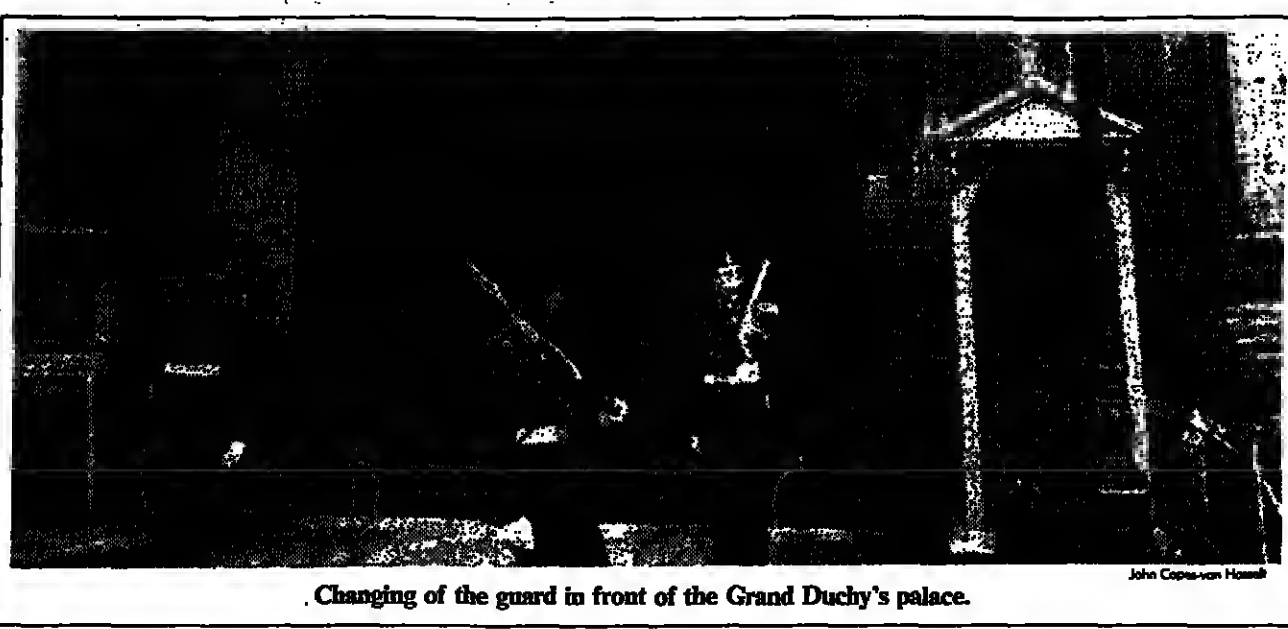
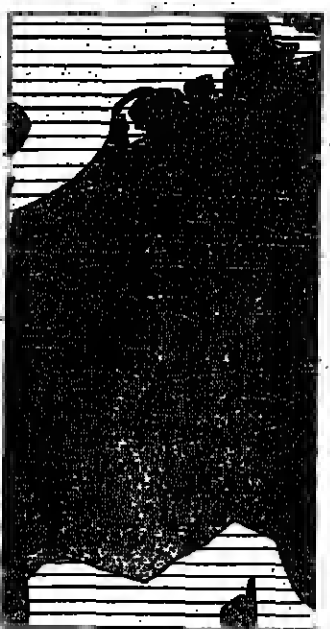
LIKE RICHTER readings to the anxious inhabitants of an earthquake zone, the figures that Luxembourg's international banking community watches with care are those that measure its share of the Eurobond market.

After a heart-stopping tumble in 1982, when the Luxembourg banks saw their share of the year's total Eurobond issues fall to the lowest point since 1972, last year produced a welcome recovery. Luxembourg will never again enjoy the dominant role it briefly played in the Eurobond market of the mid-1970s. In 1975 it accounted for 40.4 percent of all issues in what was then the fledgling \$6-billion-a-year Eurobond business. But its leading banks are confident that the rot of two years ago, when Luxembourg's share fell to 16.3 percent of Eurobond issues worth almost \$44 billion, has been stopped.

For 1983, according to Edmond Israel, a member of the executive board of the Banque Internationale à Luxembourg, the Grand Duchy's share of all Eurobond business covered healthily to stand at 24.5 percent of issues, totaling about \$44.2 billion. That figure was an improvement on the 21.8-percent share reached in 1981 and marked a return to the days of 1977, when Luxembourg banks had 29 percent of a Eurobond business that had mushroomed by then to \$14 billion a year.

Hanging on to a sizable chunk of the Eurobond market is vital to the Luxembourg banking sector, for with much of its previously comfortable interbank activity either stagnant or evaporating, it must look to the Eurobond market as a future mainstay. Portfolio management and increased personal banking of other kinds are all-growth areas that Luxembourg bankers current-

(Continued on Page 14)



Changing of the guard in front of the Grand Duchy's palace.

A Boom in Private Banking, Questions for Future

By Sherry Buchanan

"SWISS PRIVATE brokers never worry about competition from Luxembourg," said a Swiss banker recently.

The blue bloods of private banking have been managing rich people's money successfully enough and long enough to justify some arrogance. But Luxembourg has many of the same features to offer private banking clients as Switzerland does. Its secrecy law is as tough as Switzerland's and, so far, more reliable. But private banking in Luxembourg still is not what it is in Switzerland. There is not the same prestige. Nor do banks in Luxembourg offer the wide range of portfolio management and investment services that Swiss banks do.

The challenge in the next few years for foreign banks in

Luxembourg is to decide whether to compete head-on with the Swiss and step up their portfolio management services. The alternative is to keep building up their share of the business they already have in handling custody accounts. Unlike an account managed by the bank, a custodian customer handles his own account. The money is usually invested in time deposits at a fixed rate.

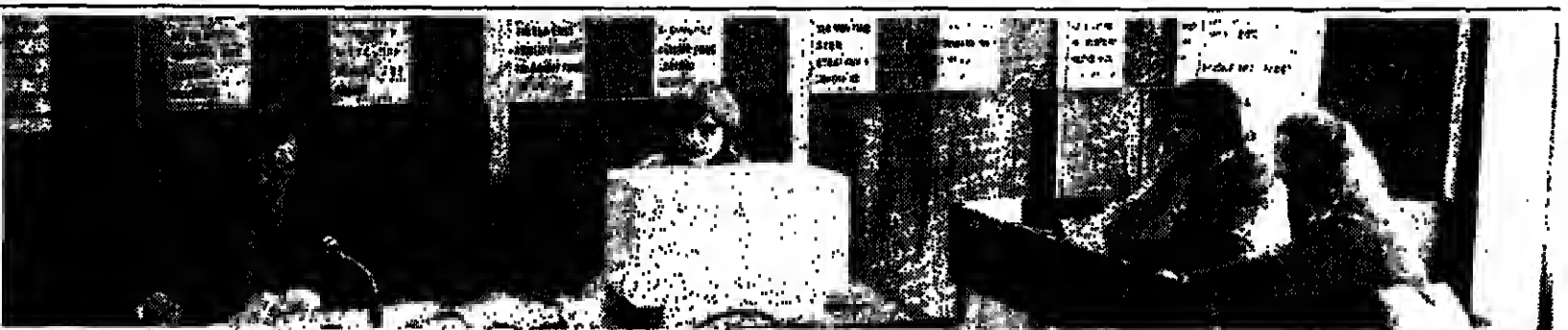
A number of foreign banks in Luxembourg have increased their share of that business in the last few years. Some of the large U.S. banks, such as Chase Manhattan, Bank of America and Bank of Boston, are in Luxembourg just for that. Citibank is considering getting back into the private banking business as well. And Oswald von Goertz, director of Chase's subsidiary in Luxembourg, said: "Our customer

base has quadrupled in the last four years. But it is difficult to predict whether the growth rate will continue at the same pace."

West German banks, especially the smaller of the 30 German banks in Luxembourg, have also tried to increase their private banking business. Banks in Luxembourg that were heavily into the Eurobond market decided to diversify into private banking out of the risky syndicated loan business, especially after the explosion of Third World debt problems.

In the custody account business, Luxembourg banks can usually offer lower fees to their clients than Swiss banks do. The client of a Swiss bank usually has to pay a 0.5-percent

(Continued on Page 10)



Stock quotations on the big board at the Luxembourg Stock Exchange.

Economic Indicators Continue to Slide

By Michael Metcalfe

LUXEMBOURG'S 365,000 citizens, many of whom were electing a new government Sunday as they and millions of other Europeans also voted in European Parliament elections, have reason to share their neighbors' qualms about economic prospects.

The Grand Duchy is anything

but immune to the economic chill afflicting the rest of Europe. In fact, in some areas of the economy it is worse off.

Luxembourgers went to vote in the national and European elections with the knowledge that the country's gross domestic product is expected to suffer a drop in volume in 1984 for the fourth consecutive year.

According to government estimates, GDP will decline about 1 percent when banking services are excluded. This outlook is only slightly more encouraging compared with last year, when GDP fell 2.5 percent, against a 1.7-percent drop in 1982.

Total merchandise exports, of which almost 50 percent are steel products subject to quotas, did not

increase at all last year. In the first six months they were 1.7 percent lower in value than in the corresponding 1982 period, according to government statistics.

Inflation is also compounding the Grand Duchy's economic problems. The government statistics board, STATEC, expects to see inflation "slow down only slightly, with a considerable risk of unexpected difficulties" in 1984.

When measured against its European neighbors, Luxembourg was in about the middle of price increase tables in 1983, its 8.7-percent rise in inflation lying between France's 9.4 percent and Belgium's 7.7 percent.

Finance Ministry officials said the trend in public finances was giving rise to major concern. The officials, in recent interviews, pointed out that between the end of 1981 and the end of this year the national debt will have grown 55.7 percent, from 29.8 billion francs to an estimated 46.4 billion francs.

And, as the domestic Banque Internationale à Luxembourg noted in a section on the economy in its 1983 annual report: "Over the same period, the budgetary reserve and the reserves in public investment funds will have gone down

(Continued on Page 9)

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Newest Banks Bringing New Twist To the Time-Honored Formulas

By Vivian Lewis

THE NEW headquarters building of the newest bank in Luxembourg, International Bankers Inc. (IBI), on the Rue du Prince Henri, could be said to be haunted with the ghosts of the worst kind of Luxembourg banking. Before IBI took the building over and brought in a British designer to tone down its style, it was intended to house the ill-fated Banco Ambrosiano.

But the newest bank in Luxembourg—with its holding company chaired by the former head of

Crédit Commercial de France, Jean-Maxime Lévesque, and its operations headed by another hand from that bank, Jean de Roquefeuil—in fact marks something of a break with the past. The year-old bank, which in its first year had balance-sheet business of \$300 million and profits of \$2 million, is a new sort of institution for Luxembourg—and not the only one.

IBI engages in what Mr. Roquefeuil calls "classic, simple, traditional banking" instead of the sort of Eurobond business that Luxembourg banks normally go in for.

This means financing commerce, funding international trade. Only Bank of Credit and Commerce International, among the earlier Luxembourg institutions, seriously focused on this sort of business, normally centered on London and, when complicated counterpart or forfait financing was involved, on Vienna or Zurich.

In 1984, IBI, with the help of its opening a subsidiary office later this month in Hong Kong, hopes to double its balance-sheet and its off-

(Continued on Page 9)

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LUXEMBOURG'S GROSS NATIONAL PRODUCT (In billions of francs)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Current Prices											
Private consumption	33.7	37.3	43.0	49.8	56.2	60.9	64.9	71.1	79.1	86.6	92.5
Public consumption	7.4	8.6	10.7	12.9	14.7	16.3	17.5	19.5	22.2	24.5	26.3
Gross fixed capital formation	17.6	20.9	23.0	24.0	24.3	25.7	27.0	30.0	36.0	36.1	38.4
Change in stocks	0.9	0.8	-1.7	-2.5	0.0	-3.0	1.3	-0.2	2.2	4.3	4.6
Total domestic demand	59.6	67.7	75.1	84.2	95.3	99.8	112.6	120.4	139.4	151.5	161.8
Exports of goods and services	49.6	65.6	92.6	76.5	83.9	84.0	88.6	105.4	110.1	113.8	128.5
Imports of goods and services	46.7	56.8	74.2	73.8	79.5	81.8	89.2	102.3	114.1	120.9	136.0
Gross domestic product at market prices (ESA)	62.5	76.5	93.4	86.9	99.7	102.1	112.0	123.5	135.4	144.3	154.2
Net factor income from abroad	5.4	8.7	10.9	15.3	21.1	24.5	26.4	29.8	30.3	47.3	65.0
Gross national product at market prices	67.9	85.2	104.3	102.2	120.8	126.6	138.4	153.3	165.7	191.6	219.2
1975 Prices											
Private consumption	42.9	45.2	47.4	49.8	51.3	52.6	54.1	56.1	57.9	58.9	57.4
Public consumption	11.1	11.5	12.1	12.9	13.2	13.6	13.9	14.3	14.8	15.1	15.2
Gross fixed capital formation	24.5	27.3	25.9	24.0	22.8	23.2	23.4	24.6	26.9	24.9	23.9
Change in stocks	1.0	0.7	-1.6	-2.5	-1.4	-2.8	1.1	-0.2	3.3	2.9	2.8
Total domestic demand	79.5	84.7	83.8	84.2	85.9	86.5	92.4	94.8	102.7	101.9	99.3
Exports of goods and services	71.4	81.7	92.3	76.5	78.0	77.9	81.1	87.6	84.5	82.8	83.0
Imports of goods and services	70.2	78.0	84.0	73.8	75.5	75.2	80.3	85.3	88.4	86.7	85.9
Gross domestic product at market prices (ESA)	80.7	88.3	92.2	86.9	88.5	89.2	93.2	97.1	99.0	97.9	96.4
Net factor income from abroad	7.2	11.0	12.1	15.3	19.6	20.7	20.4	21.0	19.4	24.2	26.6
Gross national product at market prices	87.9	99.3	104.3	102.2	108.1	109.9	113.6	118.1	118.4	122.1	123.0

1. Exports of banking services are excluded.
Note: Data may not add because of rounding.
Source: OECD.

Host to 114 Banks, Duchy Forges Place As Key Crossroads In Western Finance

By Giles Merritt

CONSTRUCTION workers still rub shoulders with bankers along the Boulevard Royal, the broad avenue that houses Luxembourg's leading banks. The finishing touches are being put to a new luxury hotel fit to house the Grand Duchy's constant stream of visiting financial executives, and negotiations are continuing apace with the local planning authorities that will see the central city's last outdoor parking lot give way to a multistory bank building.

The careful wording is advised, of course. For Luxembourg boasts no skyscrapers. A thriving financial center it may be, but its lack of anything higher than Kredietbank Luxembourg's 12-story headquarters is quite in keeping with its position in any world league of financial districts.

Luxembourg has come almost from nowhere in the last 20 to 25 years to establish itself as an important offshore banking center at the crossroads of Western Europe. But it does not claim to be in the same league as major centers such as New York, London, Frankfurt, Tokyo or Paris, for instance, and in terms of financial and management services infrastructure it would not compare with any of the larger domestic banking centers around the globe.

Yet Luxembourg is an important part of the international financial mechanism, its growth as the host to 114 banks has been impressive and its outlook remains optimistic despite periodic scares. Perhaps because they are unsure of their good fortune in finding an economic activity to take over from the previously dominant steel industry,

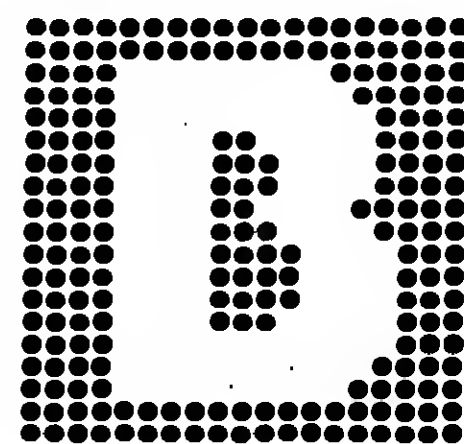
Luxembourgers tend to talk of their financial sector as they would of a gleaming Cicerone coach that might at any moment revert to being a pumpkin.

First there was Banco Ambrosiano Holdings, the Luxembourg end of Roberto Calvi's financial empire. Although never even a proper bank in the Grand Duchy, it nevertheless focused a good deal of unwelcome attention two years ago on Luxembourg's regulatory system. Then there was Schröder Mischmeyer Hengst, the Triple-A West German private bank that faltered and was rescued but as a result was revealed to have a degree of exposure to risk in its Luxembourg operations that was itself cause for concern.

Since then there have been defections too from Luxembourg's international banking community. Landesbank Stuttgart, never one of the most active of the 30 German banks that represent 50 percent of all banking assets in the Grand Duchy, opted to switch its international operations to its London company. And soon Philadelphia National Bank will be unscrewing its brass plate and leaving Luxembourg.

Far from being the wolves that people outside the financial fraternity so often imagine, banks are more often like sheep. They welcome newcomers to a center because their presence confirms the wisdom of their own choice and because it enlarges the local banking and financial market. In Luxembourg they tend, therefore, to play down the importance of setbacks and emphasize the likelihood of new additions that will take the

(Continued on Next Page)



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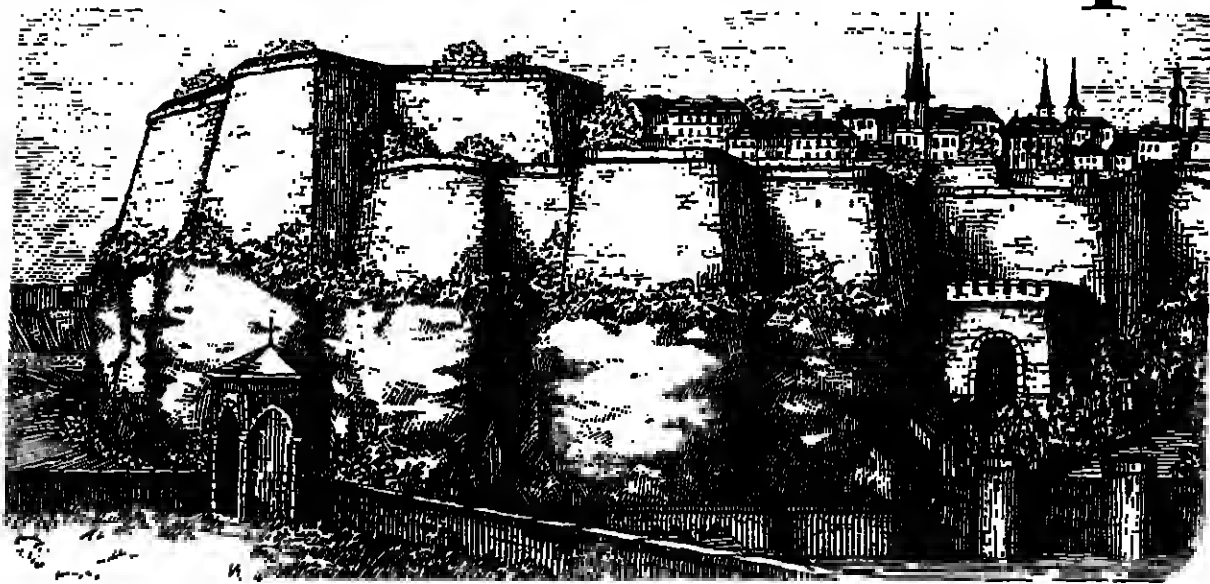
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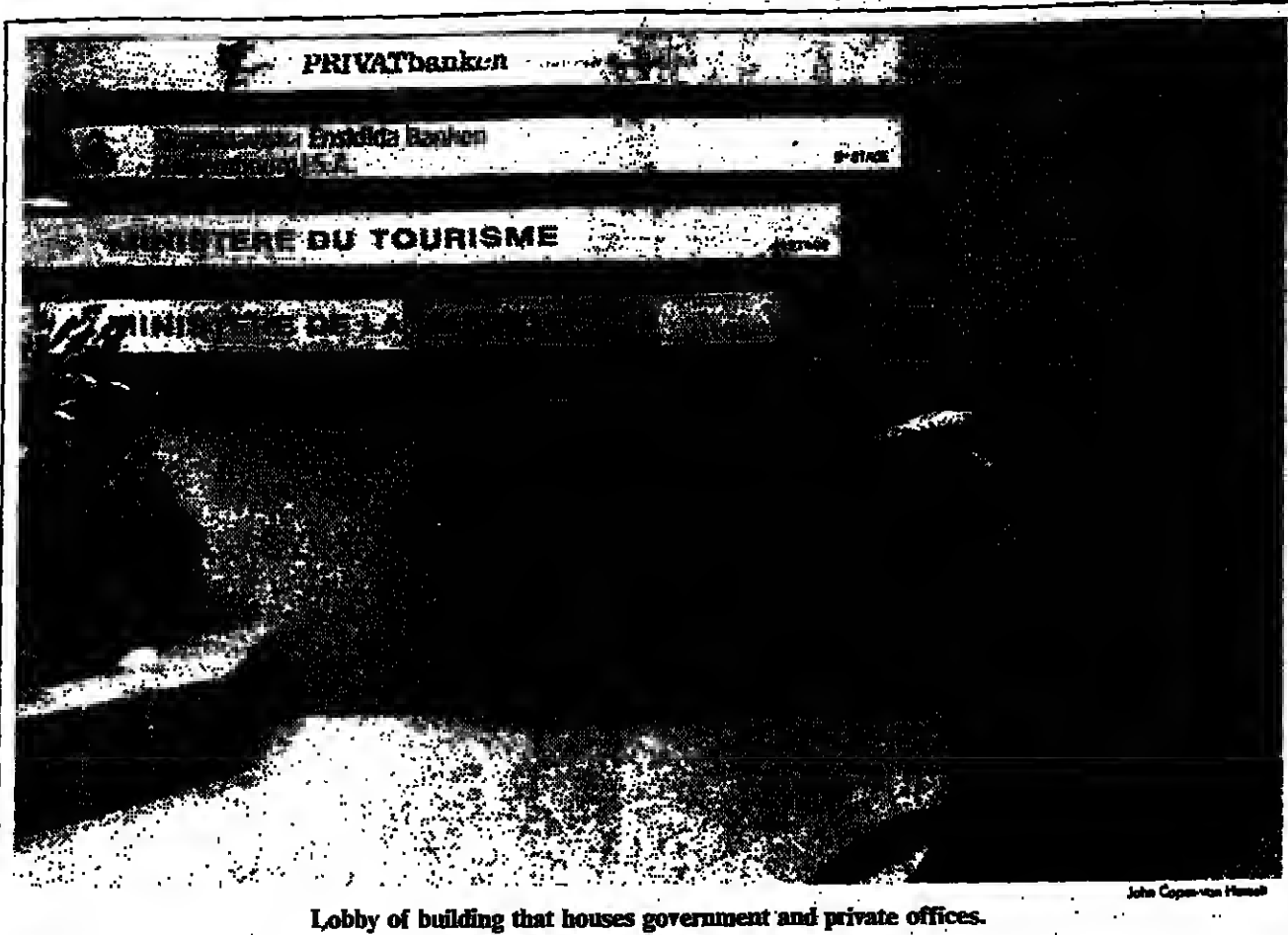
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BANKING AND FINANCE IN LUXEMBOURG



Lobby of building that houses government and private offices.

Host to 114 Banks, Duchy Forges Place As Key Crossroads in Western Finance

(Continued From Page 7)

total of banks back up to 115 and perhaps beyond.

"I still think new banks will come here—I believe there will be one or two, and maybe three, this year," insisted Edmond Israel, a senior executive board member of the venerable Banque Internationale à Luxembourg (BIL). And at Kredietbank, senior executives such as Jean Adani emphasize that against the defections must be set the arrival of such new blood as International Bankers Incorporated (IBI), a trade financing company that was set up recently.

Ventures like IBI or a parallel Franco-Arab project being launched by former Crédit Commercial de France talent are very welcome in Luxembourg because they also strengthen the banks' diversification away from the syndicated credits that have represented about four-fifths of all financial activity. More and more the banks emphasize their new personal banking and portfolio management services and even in the area of corporate financing they stress that the days of big off-the-peg financing packages have given way to individually tailored ones to suit the individual customer.

It is, though, the sort of conversational flourish that is used to disguise the bankers' own uncertainties about Luxembourg's future.

"The interbank market has peaked," said Dresdner Bank's Luxembourg director, Klaus J. Zapf. And he said that, although for most of the banks established in Luxembourg any move away is out of the question, "if they had had to

make a decision in 1984 on whether to set up here, the answer might be different." Kredietbank's head of treasury and trading, Etienne Verwilghen, agrees with that analysis and reckons that West German banks especially would probably not flock to Luxembourg, the way they did a decade or more ago.

It is not, in fact, the straightforward question of whether West German banks will leave Luxembourg that worries the financial experts. It is whether the West German authorities' new gearing requirements for German banks outside the Federal Republic will depress the business they do in Luxembourg.

For geographical and language reasons, the Grand Duchy has been the home away from home for West German banks using offshore facilities to finance their industrial customers' burgeoning exports. Only a comfortable drive from Frankfurt, Luxembourg has offered both tax incentives and less stringent lending/assets ratios. It has become a natural extension of Frankfurt, and Euro-Deutsche-mark bonds have boomed there.

Dresdner Bank's Klaus Zapf warns, however, that with the changes in West German banking rules three things will happen during the coming years to the performance of German banks in Luxembourg. The mix in which the new conditions apply will vary, but in general all the banks have to cope with slower growth in their loans business, with substantial increases to be made to their equity base and, as a consequence, a much higher level of retained profits in Luxembourg. In other words, the high-

profit, accelerating-lending days are over.

The reason for this retrenchment has been the requirement of the Federal Supervisory Authority in Berlin for West German banks to begin consolidating their international operations and to bring their gearing ratios into line with the country's domestic banks. West German banks in Luxembourg are therefore entering a five-year-phasing-in period during which they must adjust their practices so that loans do not exceed 18 times their assets. The move brings the German banks closer into line with U.S. and Swiss practice, but probably speaks volumes about the Germans' anxieties over banking safety margins. It is hard to compare the gearing ratios of German banks in Luxembourg with their domestic counterparts, because of different accounting practices. German experts estimate, though, that until the new rules went into effect the Luxembourg subsidiaries were lending up to 25 times their assets.

The shadow of slowdown on the West German banks' Luxembourg activities should not eclipse their real importance. About 40 percent of all Eurobond business in Luxembourg is denominated in Deutsche marks, and the Grand Duchy is easily the leading Euro-DM center, with about 37 percent of all the Euro-DM issues, which last year totaled \$4.13 billion.

In spite of all these uncertainties, Luxembourg's banks still enjoy healthy profits. The provisional estimates prepared by the Luxembourg Monetary Institute — the Grand Duchy's new central bank — put the 114 banks' combined

earnings for 1983 at about 15 percent up on the 57 billion francs reached the year before. Such an improvement is by no means as spectacular as the country's 1982 banking profits, which soared from 36 billion francs in 1981, but it was nevertheless substantial.

The figures that the Luxembourg bankers are less proud of are those measuring total assets, for these are growing at a markedly slower rate than before. By the end of last year the banks' combined assets had increased 10.1 percent over the 12-month period, and even that comparatively modest rise has been almost entirely attributed to the depreciation of the Luxembourg franc against the dollar.

To take just one year and set those results against a much longer period may be misleading. Yet Luxembourg itself seems in little doubt that its runaway growth is settling down into a much more sedate pattern. As recently as 1979, Luxembourg was chalking up an annual expansion in its total volume of business of almost 30 percent, yet last year even an encouraging surge in its Eurobond business to \$10 billion from \$7 billion in 1982 failed to push overall business growth beyond 7 to 8 percent. The bankers are not above pointing out, with just a hint of malice, that in part it is their own caution that is responsible for any lackluster growth figures — less than 10 percent of their total assets represent lending to the tottering debtor nations of Latin America and elsewhere. The international debt crisis is something most Luxembourg bankers read about in the newspapers.

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BANKING AND FINANCE IN LUXEMBOURG

West German Banks Shift Strategy, Turn to Caution and Retrenchment

WHEN West German bank regulators tighten controls, Luxembourg shudders.

In 1980, 1981 and 1982, the West German banks in Luxembourg were, collectively, the tiny country's largest taxpayer. Although the figures for 1983 are still not added up, it is clear that the West German banking subsidiaries have lost their rank as taxpaying champions. What with increased provisions for loan losses, and additions to Luxembourg capital and reserves, their West German parent banks have seen dividends from the Grand Duchy shrink or even disappear.

Still the largest contingent in Luxembourg's Eurobanking ranks, with 20-odd banks and a combined capital of 3.5 billion Deutsche marks, the West German banks now account for 48 percent of Luxembourg's total Eurobanking business, down from 55 percent in 1980. Their number has shrunk, too, with the troubles of Schröder, Münchmeyer, Hengst last autumn and the departure of Landesbank Stuttgart International last year.

There are other signs that West German banks are pulling in their horns in Luxembourg. Some are following WestLB International in switching their balance sheets from Luxembourg francs to the less risky Deutsche marks. And under new Bundesbank rules, the banks are having to give up some customs of reporting on Luxembourg activities, such as closing their books on different days from the parent banks, because of the danger of double counting of capital, the Bank for International Settlements and the Bundesbank want a more transparent end-of-year account.

Other banks are following the move Deutsche Bank pioneered to reassure the market: the inclusion in the parent company annual report of an explicit guaranty for Luxembourg operations. Commerzbank did the same in its 1983 annual report. And the idea that West German banks in Luxembourg operate through subsidiaries, not branches, has been questioned by Deutsche Girozentrale, which opened a branch, and by Landesbank Rheinland-Pfalz, which is setting up a branch this year.

Both in lending levels, which fell from the equivalent of \$37.9 billion at the end of 1982 to \$33.9 billion at the end of last year, and in deposits (down from \$26.7 billion to \$23.2 billion in the same period), the Deutsche-mark business of Luxembourg has fallen by more than the depreciation of the mark. At individual banks, an even more substantial decline can be noted: The private bank M.M. Warburg, Brinkmann, Wirtz cut its Luxembourg loan portfolio from 3.4 billion DM to 2.5 billion DM in 1983; only exchange factors kept Commerzbank from cutting back as well.

The shift in strategy in Luxembourg is from expansion and aggressive lending to caution, retrenchment, reassurance of the market. The dramatic rescue of SMH last autumn had something to do with the new mood, but in addition new West German bank regulatory measures are forcing changes even before they are formally passed by the Bundestag. These are expected to go into effect at the start of 1985. One will require that Luxembourg's West German banks apply the same rules as their parent banks in lending volume, effectively limiting total lending for most categories of borrowers to 18 times the bank's capital. Under Luxembourg law, the subsidiaries can lend 33 times their capital.

Then, too, the lesson of excessive concentration of lending has been drawn from the SMH affair. The Bundesbank now proposes that banks, including their Luxembourg subsidiaries, be kept from newly lending more than 50 percent of their capital to any single borrower. Earlier, the limit was 75 percent, and Luxembourg operations were taken into account only informally, under a gentlemen's agreement. (According to a Bundesbank official, who asked not to be named, SMH was deceptive in reporting, and "not gentlemen.")

The impact of the new regula-

tions will vary. At Deutsche Bank Compagnie Financière Luxembourg, Ekkehard Storch, senior international officer, predicted: "We won't have as much difficulty as other banks because we are not so far off from 18 times" — the new lending ratio. "And we can raise capital cheaper and under better conditions."

Another West German banker, who asked not to be identified, calculated that the impact of the new rules would depend on the proportion of total business that a given bank did in Luxembourg. He estimated this at 8 to 10 percent of volume for the Landesbanken, which are controlled by West German states, and the large Bavarian banks, which by law are allowed to carry mortgages on their books, unlike other West German banks. For Grossbanken such as Deutsche Bank, Dresdner Bank and Commerzbank, the banker estimated Luxembourg accounts for 20 to 25 percent of total consolidated lending; and for partnership banks or Privatbanken such as Warburg-Brinkmann or SMH, as much as 50 percent of all balance-sheet business.

Since private banks are also most likely to have a concentrated loan portfolio (because many of them are closely linked to one industrial group, such as Gütehoffnungsbünde Aktienverein for Warburg-Brinkmann and Löwenbräu for Merck, Flück & Co.), it could be anticipated that they will have the most difficulty with the new regulations. But they are, in fact, often in a better position than some of the Grossbanken because they can shift more convincingly to off-balance-sheet operations, such as portfolio management, than their larger rivals. And Ulrich Damm, senior international officer at Commerzbank, concedes rather ruefully that, after the SMH failure, "some SMH customers transferred to Commerzbank — but none from other private banks."

Dresdner Bank, which had most emphasized services for private clients, has fallen behind Deutsche Bank since March 1983 in the ranking of West German banks in Luxembourg. It continues to play the private-client card, however, if only because there is no real alternative. Dresdner Luxembourg's chief economist, Dirk Lepelmeier, said: "We are not expanding our international credits. We can't improve our balance sheet by adding volume. But because of the secrecy law, private banking is an area of potential growth, even at the expense of Switzerland."

— VIVIAN LEWIS

LUXEMBOURG'S LABOR FORCE
(Employment and Unemployment, in Thousands)

	1974	1975	1976	1977	1978	1979	1980	1981	1982
Labor force (A+B)	155.1	157.6	156.9	157.5	157.5	158.3	159.9	160.4	160.9
A. Unemployed	0.1	0.3	0.5	0.8	1.2	1.1	1.1	1.6	2.0
B. Total employed	155.0	157.3	156.4	156.7	156.3	157.2	158.8	158.8	158.9
a) Self-employed & family-helpers	25.1	24.5	24.0	23.4	23.0	22.3	21.6	20.9	20.2
Agriculture	10.1	9.6	9.2	8.9	8.7	8.2	7.7	7.2	6.7
Other	15.1	14.9	14.8	14.5	14.3	14.1	13.9	13.7	13.5
b) Employees	129.9	132.8	132.4	133.3	133.3	134.9	137.2	137.9	138.7
Agriculture	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Industry	50.8	50.0	48.6	47.2	44.8	43.5	42.9	42.2	41.5
Construction	15.0	14.7	13.5	13.3	13.3	14.0	14.7	14.8	14.4
Services	46.3	49.7	51.5	53.7	55.7	57.5	59.1	60.1	61.7
General government	17.0	17.6	18.0	18.3	18.7	19.1	19.7	20.0	20.3
Unemployment rate ¹	0.1	0.2	0.3	0.5	0.8	0.7	0.7	1.0	1.2

1. Domestic definition (including border workers, net).
2. Unemployment as a percentage of labor force.
Source: OECD.

Economic Indicators Continue to Slide

(Continued From Page 7)

considerably, despite 1983's increase in taxation.

But if, unlike its major trading partners, Luxembourg has not seen a slight increase in growth or a sizable drop in inflation, its citizens should draw some comfort from two encouraging factors: employment and steady growth in the banking sector.

By comparison with most of its neighbors, Luxembourg has kept joblessness down throughout the recession. Last year, the unemployment rate was 1.6 percent, compared with 0.7 percent in 1980 — figures that many of its neighbors would envy.

Continuing growth in the banking sector, albeit at a slower pace than in previous years, has created employment, with an estimated 3,000 additional new jobs in the sector since 1976, government statistics show.

Slightly more than 9,000 people are employed in the banking sector, representing about 5.6 percent of the working population, compared with 3.5 percent in 1973. The sector continued to perform well last year, with balance-sheet growth and operating profit increases helping boost the services component of production.

Provisional estimates from the Luxembourg Monetary Institute show that the cumulative balance-sheet total, or total assets, of Luxembourg banks was 6.59 trillion francs as of Dec. 31, an increase of 10 percent from a year earlier. Operating profit also rose, by about 15 percent from 1982.

Performance in the private banking sector has not been matched, however, by the country's public finances, where the precarious situation is the reflection of two major factors: the recession's dampening of revenue and the drain on financial resources arising from the rescue of the domestic steel industry.

As part of an overall plan to bail out the industry, the government decided last year to spend 11.5 billion francs on restructuring the tottering Luxembourg-based giant ARBED, Europe's fourth-largest steel producer.

Steel production fell 2.8 percent last year from 1982; while exports dropped 5.3 percent in volume and 10.7 percent in value. Since 1974, Luxembourg has cut employment in the steel sector more than 50 percent, while the industry's share in GDP has sunk from 21.4 percent in 1974 to about 10 percent.

In order to finance the rescue plan, which stretches over several years, the coalition government of Conservatives and Liberals under Prime Minister Pierre Werner increased direct and indirect taxes last year.

As it is estimated that these increases will bring in only 4.5 billion additional francs over a full year, the government had recourse to the capital markets in 1983 and 1984 to raise supplementary funds, and drew on its budgetary reserves.

"We had to work hard over the last six months to get the steel industry back on its feet again," said Raymond Kirsch, head of the National Development Board.

With signs that the steel industry may have put the worst years behind it, (Continued on Next Page)



Colette Flesch, who holds the portfolios of deputy prime minister, minister of the economy and the middle classes, minister of foreign affairs, external trade and cooperation and minister of justice.

Newest Banks Bringing New Twist To the Time-Honored Formulas

(Continued From Page 7)

balance-sheet trade financing operations while tripling profits to \$6 million. But the kind of banking it is doing is not easy in Luxembourg, Mr. Roquefeuil said: "If Jaans seriously wants to attract other commercial banks, he has to attract traders. This may mean cutting taxes."

He was referring to the Grand Duchy's Pierre Jaans, director-general of the Luxembourg Monetary Institute. Mr. Jaans is in fact more excited by the other trend among Luxembourg newcomers, the arrival of investment funds. Their number, he says, grew from 100 to 160 in the course of 1983, and many of them are not only based in Luxembourg, but also partly operated here, with Luxembourg acting as paying agent or providing services. "The funds are of various sorts: active in stocks, bonds or

money markets, or mixed, and from many different countries. Most operate in dollars, marks or Swiss francs; one asked to work in European Currency Units, but Mr. Jaans ruled the request premature.

Almost at the same moment LBI was moving to its new building, the latest investment fund in Luxembourg was launched: The Japanese trading house Sumitomo Corp. will invest in short-term instruments, such as certificates of deposit and commercial paper, in dollars, marks and Swiss francs, on the advice of the London merchant bank Kleinwort, Benson.

Sumitomo selected Luxembourg for tax reasons — as did, among others, funds such as Putoam Emerging Health Sciences Trust, Indosuez Mulbonods, Shearson International Dollar Reserves, Schroder Japan Fund, Save & Prosper (Jersey) Commodity Fund,

Cheapside Dollar Fund Ltd., Sweden Innovation Fund and Channel Islands Transatlantic Investment Company in Health Care Equities Ltd.

Using Luxembourg as a base enables a fund to avoid tax on dividends and interest earned on the Euromarkets, as well as double taxation of dividends on equities subject to withholding at source. It also saves the value-added tax on physical possession of gold in the European Community and Switzerland, and for the owner of the fund's shares it means no inheritance taxes or death duty on the shares. Account holders are also protected against disclosure of undisclosed income; Luxembourg's bank secrecy law is tougher even than Switzerland's.

Although innovations are well- (Continued on Next Page)

BIL reports good results for 1983

Eurobond market activities strengthened



Dr. Albert Dondelinger
Managing Director
Chairman of the Executive Board

Banque Internationale à Luxembourg, the oldest and largest private commercial bank in Luxembourg, performed well in 1983, the Bank's 127th year of activity.

Total assets were up 8.6%. Cash flow showed a healthy growth, enabling BIL to increase provisions against lending risks and to raise net profit by 13.1% over 1982.

BIL took significant steps to strengthen its own resources in line with the expansion of its activities. Thus in 1983, the Bank successfully realized two capital increases, issued a subordinated loan of Lfrs. 600 million and allocated Lfrs. 185 million to the reserves.

Banque Internationale à Luxembourg again attained good results on the Eurobond market. Backed by extensive placing capacity, BIL managed or co-managed 63 issues. Among these were 12 denominated in Canadian dollars as well as 26 in ECUs whose total volume doubled that of the previous year. The Bank further expanded its prominent position in the secondary markets, acting as market

makers for some 160 Euro-issues, including a substantial number of ECU issues.

In line with the firm commitment to broadening its private banking facilities, BIL co-founded five new Luxembourg investment funds and four international investment funds, bringing to 43 the number of funds now under the Bank's administration.

BIL (ASIA) LTD., a wholly-owned subsidiary in Singapore, completed its first full year of operations successfully. The Bank, which co-concentrates on international financing and asset management, had a balance sheet total of some SS 217 million at year-

end (Lfrs. 5.67 billion). Net earnings were satisfactory.

Our representative offices in Singapore, London, and New York contributed substantially to the Bank's growing international business.

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For a copy of the 1983 annual report in English, French or German, please contact our head office in Luxembourg. Telephone 4791-597.

Financial Highlights

	1981	1982	1983
	— in Lfrs million — per 30.12.83 — Lfrs 100 = US \$ 1.7973		
Net Profit	360	405	458
Distributed profit	159	160	205
Net dividend per share	Lfrs. 225	Lfrs. 225	Lfrs. 250
Cash flow*)	1,152	2,392	2,886
Total Assets	176,240	199,495	216,568
Loans and advances	41,792	56,346	56,934
Due from banks	104,300	108,300	120,942
Due to banks	40,768	34,668	38,734
Customers' deposits	118,761	143,451	158,335
Own resources incl. borrowed capital	3,604	4,831	6,196

*) Net profit plus allocation for depreciation and provisions after deduction of the released portion of the previous years.
The itemized balance sheet and profit and loss account are published in the "Memorial-Reçu" Special des Sociétés et Associations du Grand-Duché de Luxembourg.



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- Balances with banks from money-market transactions US\$ 1.1 billion
- Credit volume US\$ 8 billion
- Capital and reserves US\$ 150 million

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BANKING AND FINANCE IN LUXEMBOURG

Banking Secrecy Legislation Tightened But Untested by Foreign Governments

IN THE LAST few years, Luxembourg authorities have done much to encourage the growth of private banking. In 1981 they tightened the bank secrecy law. Gold trading, a favorite of rich clients, is free of value-added tax. Holding company law has been changed to allow investment funds. Banks can take on fiduciary deposits on an off-balance-sheet basis after a change in the law last year. The Luxembourg Monetary Institute is considering allowing banks to offer trust services to their clients.

In the three years since Luxembourg enacted legislation to strengthen bank secrecy laws, there have been no public incidents where foreign governments surreptitiously obtained secret information or demanded to see confidential bank files.

Switzerland, on the other hand,

has had its share of headaches defending its bank secrecy laws. In 1977 staff members of the Chiasso branch of Credit Suisse, one of the three largest Swiss banks, were accused of breaking the secrecy laws. The most spectacular incident was when French customs agents presumably obtained lists of names of French citizens who held numbered Swiss accounts apparently in breach of France's strict exchange controls.

Perhaps Luxembourg has been spared attacks against its bank secrecy law because bankers there are more careful in selecting their clients. "Until now there haven't been any problems here. Maybe we've been lucky," said Ekkehard Störck, director of Deutsche Bank in Luxembourg. Oswald von Goertz, director of Chase Manhattan in Luxembourg, said: "Maybe

the authorities here are even more interested than in Switzerland in maintaining the banking system intact. They know that private banking has become a major branch of banking here."

Two other reasons there have not been any problems, bankers suggest, are that the legislation is still new and that the volume of business being transacted in Luxembourg is a lot less than in Switzerland. "Luxembourg is smaller in terms of the money handled," said Odon de Vienne, director of Bank of America. "Switzerland has 400 banks and financial institutions and the number of customers is much bigger."

As far as what is on the books, Luxembourg's bank secrecy law is as tight as Swiss law. Secrecy is defended by criminal proceedings. A bank employee can be fined and

jailed for betraying a professional secret. The identity of a client with a numbered account is only known to a few select bank managers. Under Luxembourg law, tax evasion is not considered a crime but tax fraud is. Because there have not been any cases yet, it is impossible to know how Luxembourg authorities will define fraud as opposed to evasion. Swiss authorities define tax fraud very narrowly.

Again like the Swiss, Luxembourg authorities say that, if such a case came up, they would decline to help a foreign government trying to track down violations of exchange controls.

"There are a lot of conventions saying that national administrations must help each other," said Störck, director of the Luxembourg Monetary Institute. "But a national administration is not obliged to

change its own behavior. If it is not the administration's behavior to require certain bank information, then it isn't obliged to assist a foreign administration in trying to do so."

The question is whether, politically, Luxembourg as one of the smaller members of the European Community would be able to stand up to some of its more powerful neighbors, especially France, which has strict exchange controls. "The recent case of the television satellite is a good example that shows that

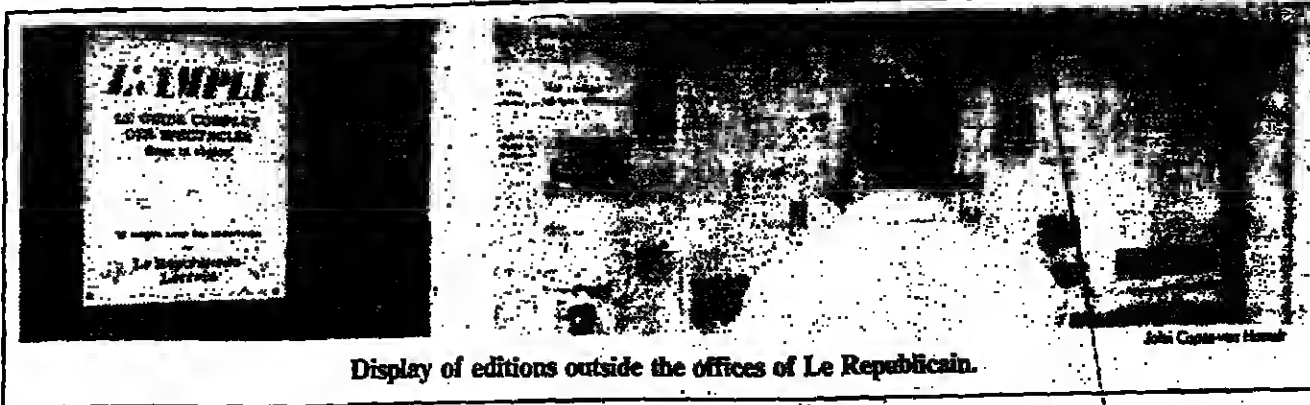
Luxembourg is a sovereign state and will not let itself be influenced," said Mr. Störck, referring to the government's recent granting of a broadcasting franchise to the Coronet holding company.

Another plus about Luxembourg's bank secrecy law that bankers point to is that, so far, it

has not become a domestic issue as in Switzerland, where a national referendum on abolishing the law was held recently; voters rejected the proposition 3 to 1.

Still another measure that has encouraged private banking in Luxembourg is that banks no longer have to carry fiduciary deposits

of large customers on their balance sheets. If a bank is in difficulty, because these clients' accounts are not on the balance sheet and therefore not part of the bank's assets and liabilities, the clients will not lose their money. Before opening (Continued on Next Page)



Display of editions outside the offices of Le Republicain.

A Boom in Private Banking, Questions for Future

(Continued From Page 7)

fee for the deposit to be placed on a fiduciary basis in another country; if the money stays physically in Switzerland there is a 35-percent withholding tax, so Swiss banks customarily place their clients' funds abroad.

"You have to pay a fiduciary fee because the bank you're using places your money with doesn't know who you are," said Odon de Vienne, director of Bank of America in Luxembourg. "That's why placing money in Switzerland is expensive." Luxembourg has no withholding tax on nonresident deposits, so the problem does not arise.

Another reason costs can be lower in Luxembourg is that banks are eager to attract new clients, so they are willing to be more flexible at much lower levels of deposit.

"In Luxembourg, management fees are negotiable with banks. For a \$200,000 deposit, you can start negotiating the management fees," said Mr. de Vienne. In Switzerland, a client with less than \$1 million has little leverage and may have to accept the standard bank fees.

Aside from the fact that Luxembourg banks are willing to

try harder to attract new clients, some bankers argue that the banks' main costs — real estate and staff — are lower in Luxembourg than in Geneva or Zurich, enabling banks to be more flexible on the fees they charge.

In addition, some private Swiss banks have recently as much as doubled the fees to their custodian customers.

But it is clear that, the richer the client, the more valuable and necessary a wide range of portfolio management and investment services becomes. Clients with more than \$1 million do not want their money sitting in a time deposit at a fixed rate of exchange.

So far, few banks in Luxembourg offer the range of services Swiss banks have. The decision the big foreign banks in Luxembourg face is whether to leave that business to their Swiss subsidiaries or hire portfolio managers in Luxembourg as well. Dresdner Bank, for example, opened private banks in Zurich and Geneva this year but is thinking of increasing its investment services in Luxembourg. Chase may be gearing up to add portfolio management in Luxembourg next year.

Has Luxembourg then been unable to attract the big

money that keeps flowing into the Swiss banks in spite of recent spectacular leaks in bank secrecy? "You can't say that the very rich are in Switzerland and the middle rich are in Luxembourg," said a West German banker. "It depends on how long the bank has been in the private banking business, because you can't build very important connections in only two or three years."

One problem may be that the private banking business in Luxembourg is still relatively young, but in addition Luxembourg is still attracting mostly middle-level money.

"Large money happens from time to time," said Ekkehard Störck, director of Deutsche Bank in Luxembourg. "But normally people are only interested in Luxembourg to diversify. There is no need to shift huge amounts to Luxembourg. It's just a place to have an additional account."

"The guy with \$1 million is the exception," said Mr. von Goertz of Chase. "My average portfolio is \$300,000."

While some money has been shifted from Geneva and Zurich to Luxembourg, most of the funds flowing into Luxembourg are from neighboring countries with high tax rates, such as Belgium.

Economic Indicators Slide

(Continued From Previous Page)

hind it, buttressed by new credit lines and equity, the draconian measures implemented by the government appear to have left bitter feelings in some quarters.

The opposition Socialists, who were expected to gain most of the five seats being added to the 59-member Chamber of Deputies in Sunday's national elections, say the restructuring was too severe, particularly in the industrial south.

Steel closures there appear to have hurt the governing coalition, political commentators said, because the government has supported ARBED's sharing steel production with Belgium's steel industry, thereby reducing Luxembourg's domestic capacity more than the European Commission demanded.

The Conservatives and Liberals, who have governed in coalition

since 1979, were expected to maintain their positions in the national parliament. They held 24 and 15 seats respectively before Sunday, which allowed them a comfortable majority.

"Even if there were a change in government, which is doubtful, there would be no major revisions of financial and economic policies. All parties are aware of the problems confronting Luxembourg today," said a political observer just before the elections.

As part of its plans to diversify away from an overwhelming dependence on steel, the government has embarked on an ambitious program to attract new industries.

From 1976, when the effort began, to the end of last year, 55 companies took advantage of good industrial locations, certain tax advantages and a central geographical situation in Europe to set up or

prepare to set up business in Luxembourg.

As of Dec. 31, 1983, more than 3,000 people were employed by the new firms already in operation, and 500 to 1,000 more jobs were in the offing. The figures, although small, count for much in Luxembourg, where about 2,950 unemployed made up 1.6 percent of the labor force as of the end of last year.

The new industries range from chemicals and plastics to glass and aluminum. Economists say the companies will revive the industrial life of the northern and the more deprived southern regions of Luxembourg.

"For my part, I remain convinced that the current situation and the medium-term perspective of the Luxembourg economy continue to demand a rigorous and disciplined financial and budgetary policy," Finance Minister Jacques Santer said recently.

New Twists to Old Formulas

(Continued From Previous Page)

coined by Mr. Jaans, he is quick to point out that traditional banking is not doing that badly in Luxembourg. He said gross profits for banks (before amortization, provisions and taxes) rose in 1983 by 10 to 15 percent overall — the precise figures have not yet been released. "Frankly, I was surprised," Mr. Jaans said.

The authorities allowed banks to again put into their reserves (provisions) a goodly share of their gross profits to cover country risks and "increase banks' ability to meet potential losses," he said. "Any plausible pattern of country risk provisions has been accepted by the tax authorities if they move, *pari passu*, along certain averages." Luxembourg taxes on banks, too, are thereby kept at advantageous levels.

There is every indication that bank profits in gross terms, before provisions, will rise again this year. The toughness on terms and greater selectivity that Mr. Jaans said characterized lending from 1982 should again pay off for Eurobanks. Banks will also get 66 centimes on every franc owed by Banco Ambrosiano in Luxembourg, although 80 to 100 percent of what was owing had been covered by loan-loss provisions

the banks established. On this, taxes will be subject to negotiation, rather than imposed by fiat.

It is harder to predict the course of interest rates — "the landscape is gray," Mr. Jaans said — and it is unclear if Luxembourg banks will get a windfall from high interest rates on loans (financed by fixed interest rate liabilities at lower rates), as occurred above all in 1982. That year, gross banking profits topped 56 billion francs, 37 billion more than in 1981 even after exchange rate factors, and 22 billion above the corresponding 1980 level. The figures for 1983 are not yet available.

Luxembourg banks peaked in 1979 in the share of total Eurobanking they booked, with 12.4 percent of all lending and 11.4 percent of all borrowing in Eurobank centers reporting to the Bank for International Settlements. Through the third quarter of 1983, the last period for which figures are available, Luxembourg's share had fallen to 10.1 percent of lending and 8.8 percent of borrowing. But in the bond market — except for Eurodollars, where there has been some decline — the Luxembourg institutions have largely held their own, both as members of underwriting syndicates and as place of quotation.

In Euro-Deutsche marks and the new business in ECU-denominated bonds, the Luxembourg presence is still greater than that of any other banking or listing center. Luxembourg is pushing up its position in Euro-sterling (at the expense of Paris), and in Euro-French francs as well, according to figures published by the Luxembourg Monetary Institute.

With 86 foreign bank subsidiaries, and 20 foreign bank branches, Luxembourg is a force to be reckoned with internationally as well. On its stock market, the number of listed investment funds rose in 1983 to 26, from 14 in 1982 and 6 in 1981. The number of foreign companies whose shares are quoted on the Luxembourg Bourse rose to 128, from 122 in 1982 and 110 in 1981.

Thirty-four banks and 12 brokerages are admitted to the Luxembourg trading floor, among them Chase Manhattan and Citibank, Merrill Lynch and E.F. Hutton, and British houses such as James Capel and S. G. Warburg. (In Luxembourg, commercial banks and stockbrokerages alike may trade on the bourse.) Earlier this year, the latest Wall Street house to set up a Luxembourg office in the Old Town was Bache & Co.

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BANKING AND FINANCE IN LUXEMBOURG

Nordic Banks Are Diversifying Away From the Home Market

"CHRISTIANA Bank Luxembourg S.A. was established in May 1973 with a staff of two people, a typewriter and initial capital of 100,000,000 Luxembourg francs," wrote the Norwegian parent company in its annual report for 1983.

From these humble beginnings, as the first wholly owned subsidiary bank to be founded abroad by any Nordic bank, Christiania's Luxembourg subsidiary has established markets. Nordic banks have for the

most part preferred to establish panded its staff to 40, has total assets of 37.7 billion francs and is about to move into a big new office on the Boulevard Royal.

Developments at the Norwegian bank's Luxembourg subsidiary in many important respects highlight the astonishing success of the 14 Nordic banks now established in the Grand Duchy.

From the start, as the importance of Luxembourg grew in line with rapid expansion in the Euro-

wholly owned subsidiaries rather than entering joint ventures.

This enabled them to carve out a special niche for themselves in the field of trade financing, medium-term loans for foreign projects and foreign exchange transactions, all almost exclusively in terms of domestic clients in the Nordic area.

Nordic banks are now the second-largest grouping in Luxembourg after the West Germans — no mean feat for a region of less than 20 million population, against West Germany's 62 million.

The growing Eurozone and tough currency and credit regulations in Norway were the chief factors behind Christiania's decision to establish a subsidiary in Luxembourg. The same factors, in varying degrees, led Swedish, Danish and Finnish banks to follow.

In recent years, however, a subtle change has entered the picture of Nordic banks operating in Luxembourg.

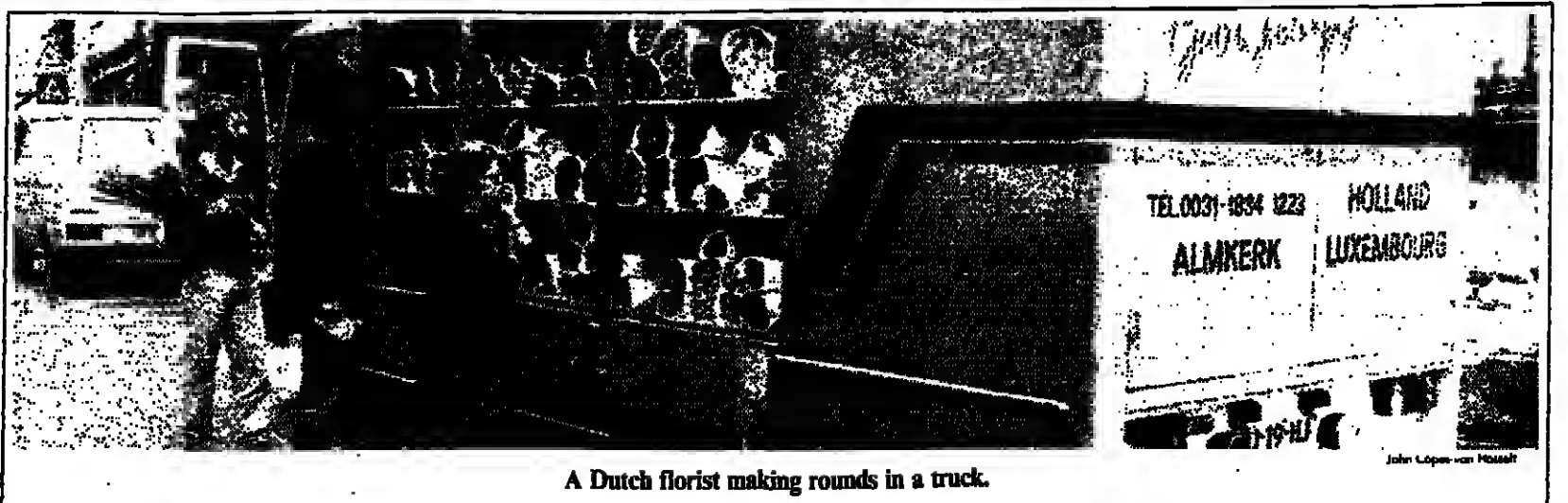
Most Nordic countries during the 1970s forbade domestic banks to make foreign-currency loans to domestic companies. The banks set up Luxembourg units in book such loans. Now these rules have, by and large, been relaxed, compelling the subsidiaries to look for other areas of business.

Changes in the structure of the Eurozone, and the move by the Luxembourg banking sector as a whole away from an emphasis on wholesale banking and toward greater diversification in private customer and retail services, have helped the Nordic banks accelerate their restructuring.

"While a major part of the (Continued on Next Page)



The Boulevard Royal, the banking district.



A Dutch florist making rounds in a truck.

Domestic Banks Broaden International Operations

THE EMERGENCE of Luxembourg as a major financial market has gone hand in hand with the growth of the Eurozone, and the expansion of the Grand Duchy's domestic banks into international domains was a logical and natural corollary.

"If in 1956 only 20 banks were active in Luxembourg with a combined balance sheet total of hardly \$1 billion, we count at present 114 banks with a combined balance sheet total of more than \$120 billion," said Edmond Israel, executive board member of Banque Internationale à Luxembourg (BIL).

BIL is one of the native banks to have played a key role in turning Luxembourg into an international banking center and, at the same time, to have broadened the international scope of its operations.

"When the Eurobond market first opened in 1963, we participated in the very first Eurobond issue, as agent for a 54-percent, \$15-million bond issue by Autostade," Mr. Israel said.

The bank has come a long way since it was established as Luxembourg's first bank in 1856. It is the country's largest commercial bank, boasting an 8.6-percent rise in its balance sheet total last year, to 216.57 billion francs. Gross operating profits climbed 17.2 percent to 5.76 billion francs, its annual report for 1983 shows.

"We aim to keep in the forefront, sponsoring new issues and acting as manager, co-manager and underwriter for a large number of Eurobond issues," said Jean Krier, general manager at BIL, who is also responsible for new issue syndication and Eurobonds.

BIL shares its standing as one of Luxembourg's big three domestic banks with Caisse d'Epargne de L'Etat — also founded in 1856 and the state's savings bank — and

Banque Générale du Luxembourg. All three, in varying degrees of emphasis, saw at an early stage the benefits of increasing their share of international business and of using their universal banking nature to offer both retail and wholesale banking services to potential clients. Where they differ from their international counterparts setting up operations in the Grand Duchy is that they had a solid domestic banking base to draw from in moves to expand overseas.

While it is true that foreign banks operating in the Grand Duchy are increasing their efforts to attract private customer business from abroad by offering improved retail facilities for foreigners who wish to bank in Luxembourg, the domestic banks are confident that they will get a piece of this action too.

"After all, we started off by servicing the needs of a private customer base, and the trend toward greater diversification in Luxembourg's financial palette fits in perfectly with our strategy," Mr. Israel said.

Domestic bankers estimate that Luxembourg's main commercial banks devote 35 to 40 percent of their operations to international business, with the proportion likely to increase over the next five years to about 50 percent, or maybe more for the larger banks.

A lot hinges on developments in the Eurobond market, traditionally an important aspect of the domestic banks' international operations.

Here the picture was mixed, with issue activity on the whole slackening somewhat last year from 1982's record levels. Total volume of new issues dropped 19.5 percent during 1983, from \$33.8 billion in 1982 to \$27.3 billion, with the fall principally explained by a reduction in

the volume of Eurobonds denominated in dollars.

On the other hand, issue volume of bonds denominated in European Currency Units expanded vigorously, more than doubling if compared with 1982 issue amounts. It is hard to deny the interest expressed by domestic Luxembourg banks in seeing the ECU sector of the Eurobond market attain maturity and even pre-eminence.

"As in 1982, it is in the ECU sector that we obtained the best results, since we directed three Eurobonds in ECUs for the account of the Republic of Ireland and participated as co-manager of 23 other debentures expressed in this currency unit," BIL said in its 1983 annual report.

Mr. Krier said one of his bank's prime objectives was to increase the

proportion of BIL's management, either as lead manager or co-manager, in the Eurobond sector, primarily in the ECU market.

Moreover, on the international financial scene the Luxembourg franc is rapidly emerging as an investment and lending vehicle, particularly for European supranational borrowers, such as EURATOM, which last year made a public issue for 500 million francs at 11 percent over 10 years.

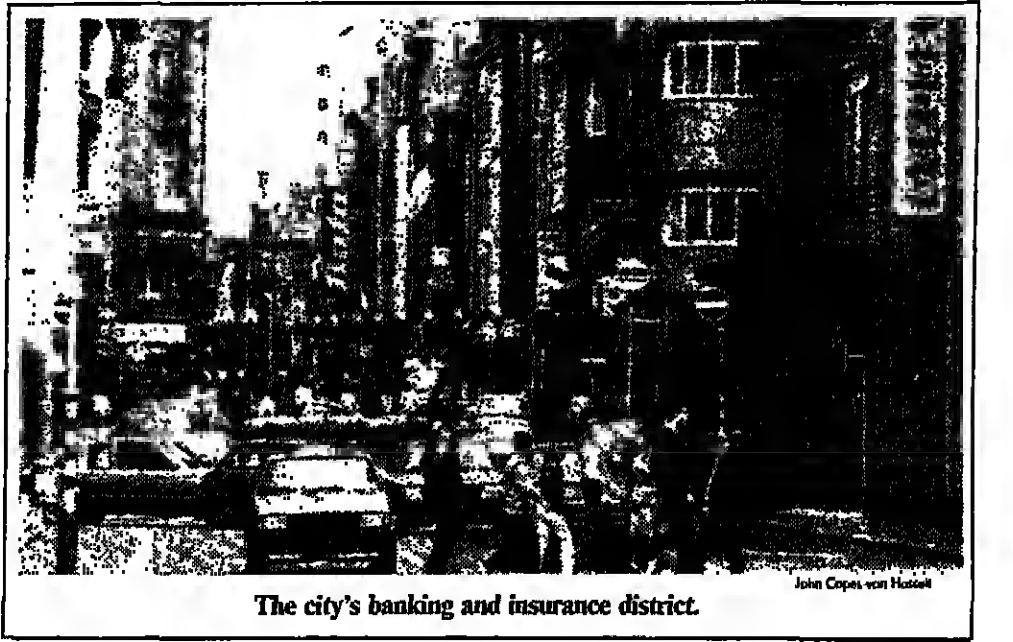
In 1983, BIL conducted six public issues and four private placements in francs and participated as co-leader in 12 loan-issuing syndicates in francs.

As for future developments in the Eurobond sector, domestic bankers expressed confidence that the sector had attained enough resilience and popularity to with-

stand changes in the international financial scene.

In this context, bankers like Mr. Krier and Mr. Israel said they felt that the abolition of withholding tax on interest paid on U.S. bonds would hardly have an impact on the Eurobond sector and might in fact increase the international business of domestic banks such as BIL.

In terms of their overall international banking strategy, the domestic banks are agreed in their desire to increase their profile in the secondary markets of the Eurobond sector. "Banks in Luxembourg very soon became engaged in the underwriting and placement of these bonds as well as trading of these securities in the secondary market; (Continued on Page 14)



The city's banking and insurance district.

Secrecy Legislation Tightened

(Continued From Previous Page) an account, a contract between the client and the bank must clearly specify that the account is a fiduciary account. As in Switzerland, however, clients are not protected if they have instructed the bank to loan money to a company and the company fails to pay the clients back.

In addition, Mr. Shaus warns: "There will come a day when a client's money will be deposited in a bank that doesn't have fiduciary deposits on an off-balance sheet basis."

The Luxembourg Monetary Institute is considering a change in the laws that could be a further

stimulus to private banking. Banks would be allowed to provide trust services to their clients. There is no trust legislation in the French civil code, on which Luxembourg law is based, so authorities would have to create a law.

Most foreign banks in Luxembourg operate trust services out of the Channel Islands. "The whole concept of trusts is unknown to the Continental mind. It is a very Anglo-Saxon concept and probably wouldn't be of any interest to a Belgian or German client," said Mr. de Vienne.

A recent change in how a bank's capital gains are taxed in Luxem-

bourg, although not enacted with the idea of encouraging private banking per se, will nevertheless do so: By reducing a bank's tax burden, it will help Luxembourg bankers keep fee structures flexible. Before the change in the law, banks that made capital gains only because of an appreciation of their currency over time were taxed at the regular capital gains rate of about 50 percent. Now banks will no longer be taxed at all on capital gains realized only because of an appreciation in foreign exchange; under Luxembourg law, those gains are not considered real gains.

— SHERRY BUCHANAN

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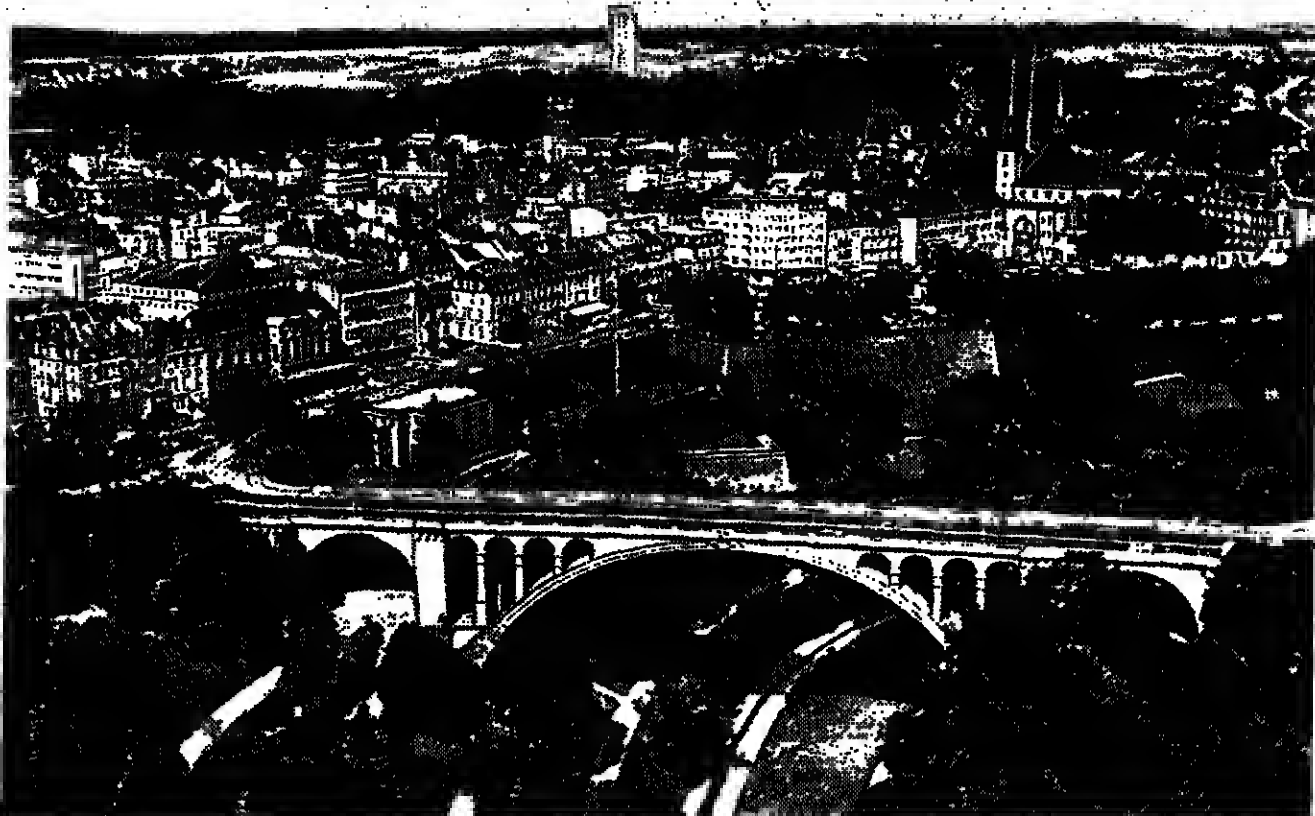
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BANKING AND FINANCE IN LUXEMBOURG



The European Investment Bank.

European Currency Unit Trade Rises And Its Appeal Is Expected to Grow

ON THE Luxembourg Stock Exchange, traders have been dealing in Eurobonds for a quarter of a century. But the most phenomenal rise in trading volume has been scored by the newest currency in which such paper is denominated, the European Currency Unit.

In the five years since the European Community created this composite currency, its use in private banking and financing operations has grown to new issues totaling more than 1.9 billion ECU in 1983, and this year a new bond is being issued virtually every week.

An ECU, worth about \$1.20, is made up of currencies from the EC member states. In September the number of currencies in the basket will rise to 10 when the Greek drachma is added. The money unit was invented for official transactions and accounting by the EC, but its most conspicuous success has come in private banking and financial operations.

The first borrower in the currency was an Italian company, and some of the ECU's appeal to borrowers from other "weak-currency" countries such as France and Luxembourg is obvious: They can borrow at relatively low interest

rates, while the exchange risk is reduced because their local money makes up part of the package.

EC institutions have been big borrowers, too, partly in the name of team spirit. Other borrowers have been seeking to diversify their currency risk, particularly to get out of one dollar. That would explain the ECU issues by such institutions and governments as the World Bank, Boston International Finance, Citicorp Overseas Finance, the Bank of Tokyo, Nippon Credit Bank, Quebec province, Austria and South Africa.

The lender of this mixed currency, as with other Euro-currencies, is rather more conventional: the proverbial Belgian dentist. One-half to three-quarters of ECU issues find their way into Belgian portfolios. A further 10 to 15 percent wind up in Luxembourg, Belgian banks; as a result of their placing power, have managed to maintain a queue for new issues, to keep issuers from crowding each other out — a system that Luxembourg banks and other foreign banks often envy. Jumping the queue, as some French rebels discovered, can result in an issue's being discounted rapidly, something banks dislike.

The sort of informal controls a queue involves are only a part of the emerging structure that the totally unregulated ECU market is gradually acquiring. There is no central bank for ECU issues, although anyone with access to the requisite currencies can "create" ECUs on the spot — or unbundle ECUs if they are in surplus.

Five banks active in the ECU market operate a clearing system on behalf of other such banks. At the close of the business day, the five — KBC Bank Belgium, Kredietbank Luxembourg, Société Générale de Belgique, Cédit Lyonnais and Lloyds — balance the operations of their correspondent banks with one another, and within 24 hours have worked out settlement of their net ECU positions among themselves. But this informal system is worrying bankers, particularly in periods of market tension.

Bankers also dislike the extra fees and commissions the five collect, and other banks, especially Luxembourg banks, wait to get in on the clearing system. A proposal to create credit lines and an inter-bank communications system to a new clearing center in Paris is under consideration.

It would be run by the Bank for International Settlements, the central bankers' central bank, which views the project "with interest or even a friendly mind," says its officials.

If the BIS plan does not come off, there is an alternative being worked on in Luxembourg: a single-tier clearing system based on CEDAL, the bond-clearing system run out of Luxembourg. It would be under the auspices of the European Investment Bank, an EC body based in the Grand Duchy.

Although the ECU bond business has grown like Topsy, other banking business is also being done in the newfangled money. You can use ECUs for deposits, you can have ECU-denominated credit cards, you can buy certificates of deposit of varying durations denominated in ECUs. You can even buy something that roughly approximates nonvoting preferred stock in the composite company: the newly issued "participating shares" of the multinational French company Saint Gobain.

The French have been among — (Continued on Next Page)

How to Make an ECU

THE FORMULA FOR COMPOSING a European Currency Unit consists of:

- 0.828 Deutsche marks
- 1.15 French francs
- 0.895 British pounds
- 0.480 Italian lire
- 0.286 Dutch guilders
- 3.66 Belgian francs
- 0.217 Danish kroner
- 0.00759 Irish pounds
- 0.14 Luxembourg francs

When the ECU's composition is revised in September, the combination will include the Greek drachma.

Road sign announces approach to the European Parliament complex in the Grand Duchy.

Nordic Banks Diversifying Their Business

(Continued From Previous Page)

bank's business activities has traditionally been linked to Norwegian and Scandinavian customers, we are now placing greater emphasis on serving customers on the European continent," said Björn Bergesen, general manager for the credit department of Christiania Bank Luxembourg.

Most Nordic banks in Luxembourg share this view. PRIVATbanken International (Denmark), the Luxembourg arm of Denmark's PRIVATbanken, is focusing many of its activities on serving a large group of Danish expatriates in Spain who live off their invested income.

Private-client business may be a bigger drawing factor for Danish banks in Luxembourg than, for example, for the Swedes, who are constrained by tougher foreign-exchange regulations.

There is evidence of a more liberal and flexible approach to the domestic banking sector in Sweden, but this is not the main criterion for Swedish banks operating in Luxembourg.

For banks such as Skandinaviska Enskilda Banken (Luxembourg) SA, Svenska Handelsbanken SA and PKBanken International (Luxembourg) SA, all of which have Swedish parent banks, success lies in meeting the financing needs of Swedish companies.

"Corporate client business and related business like foreign exchange, medium- and short-term lending to companies and cash management for Swedish subsidiaries remain the mainstays of our Luxembourg operations," said a Swedish bank manager.

Portfolio management is not high on the list of priorities for the Swedish subsidiaries in Luxembourg, while labor-intensive, low-return private banking would prove too great a burden on profits, another Swedish banker added.

Norwegian authorities moved to liberalize foreign-exchange regulations in May, and Norwegians can now purchase shares on foreign stock exchanges as well, in addition to being permitted to buy Norwegian Eurokroner securities on the

secondary market. Thus Norwegian subsidiaries in Luxembourg see a greater justification now to diversify into private banking and bond trading.

Norway's largest bank, Den norske Creditbank, has let its Luxembourg subsidiary go into private banking but continues to emphasize the financial needs of large corporate clients, particularly in the offshore oil sector.

Finnish banks are also well-represented in Luxembourg. Kansallis-Osake-Pankki and Union Bank of Finland Ltd. have subsidiaries primarily serving corporate clients but also participating actively in the Eurobond markets.

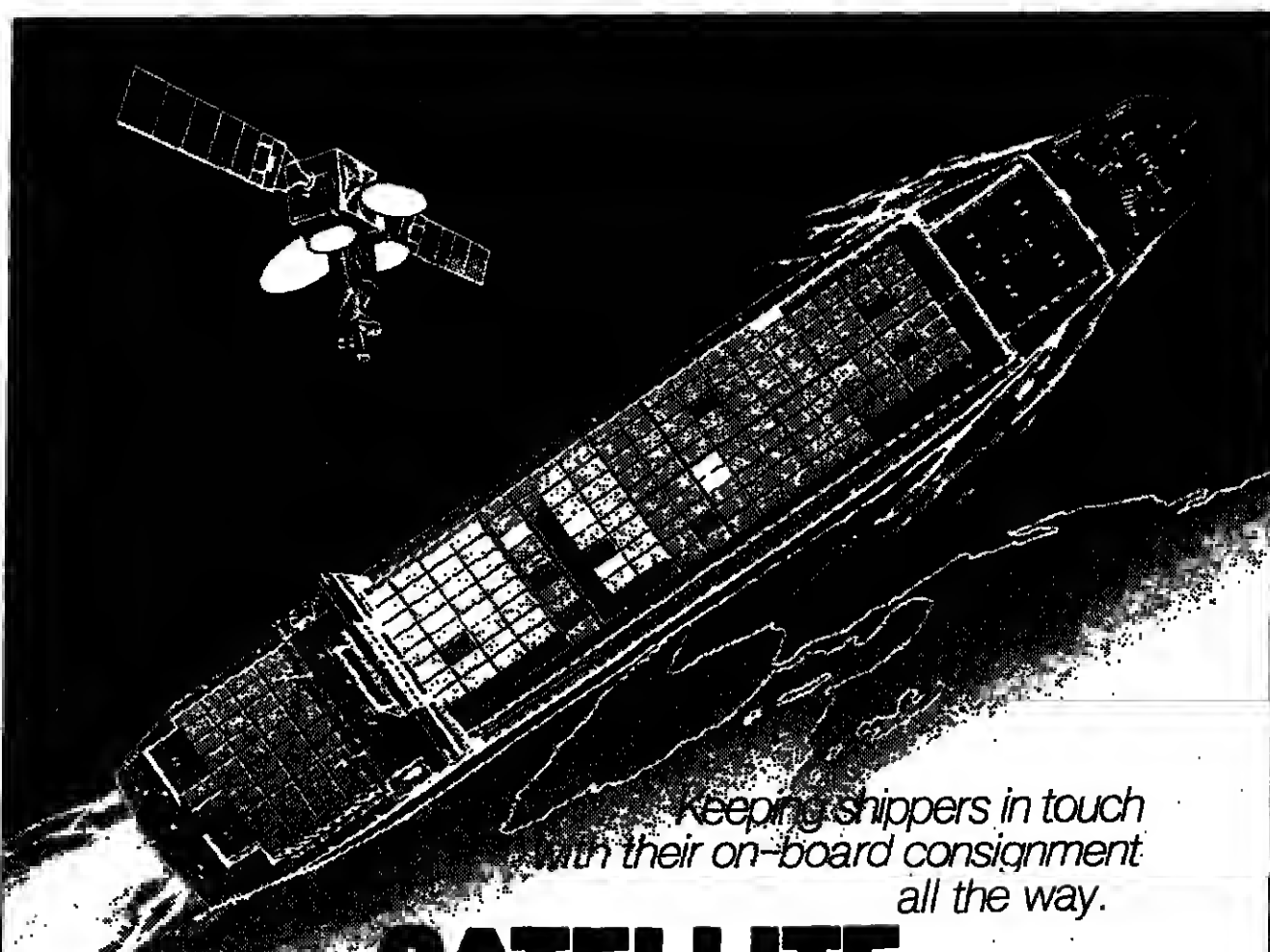
While Nordic bank subsidiaries in Luxembourg far outweigh the number of joint ventures, the latter have also made a name for themselves.

A case in point is Banque Nord-europe SA, which offers Scandinavian and northern European clients a range of funding and lending not always associated with the

more traditional Euromarket financing operations.

It provides special services, such as sight and time deposits in all the major Eurocurrencies, money-market and foreign-exchange transactions, medium-term loans, import-export financing and individual investment packages. With trade financing and medium-term loans for foreign projects the mainstays of Nord-europe's business, specialization and the pooling of certain types of transactions have made sound business sense for the consortium. The strategy also proves, several European bankers pointed out, that the notion of consortium banking is far from dead. Among shareholders, Nord-europe lists Faaborg-Gaarslunde for Denmark, Sparkassen of Copenhagen, Skopbank of Helsinki, Sveriges Bank of Stockholm, Union Bank of Norway, Generale und Bank der Österreichischen Sparkassen of Vienna, WestLB International of Luxembourg and Caisse des Dépôts et Consignations of Paris.

—MICHAEL METCALFE



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BANKING AND FINANCE IN LUXEMBOURG



The European Statistics Center.

Duchy Expands Role as World Center For Insurance Through New Legislation

EARLIER THIS year Luxembourg took a giant step forward in its efforts to diversify its financial market and become a center for international insurance companies as well as banks.

The parliament passed a bill Feb. 7 creating conditions to attract certain sectors of the insurance business that the government seeks to promote, especially general reinsurance and captive insurance and reinsurance.

Provisions in the bill permit insurance companies during the initial years after settling in Luxembourg to make generous untaxed

technical provisions. Moreover, the profession of insurance broker — hitherto prohibited under Luxembourg law — was legalized for those in the international insurance business.

But the bill also tightened regulations in some areas. "A reinsurance company must have at its disposal a minimum capital requirement of 50 million Luxembourg francs, though for a pure captive insurance firm the requirement is less," said Ernest Muhlen, treasury minister-delegate and orchestrator of the draft bill.

Mr. Muhlen, who also heads the

government's insurance study group, said he felt the bill would go a long way toward drawing new insurance business to Luxembourg. Not that the Grand Duchy is without insurance companies. But the 43 firms registered in Luxembourg, most of which have their headquarters abroad, tended to confine their business to the domestic scene, which has rapidly become saturated.

Aware of this, the government wished to promote international insurance and reinsurance business to increase employment and bolster tax revenue.

One of the first international insurance companies to operate in Luxembourg is Unilife Assurance Group, which specializes in international life insurance and reinsurance. Two British mutual insurance groups, the West of England Shipowners Mutual Protection and the Indemnity Association, focus on marine, aviation and transport risk. "It is curious to note that the giant damages resulting in the environment from the catastrophes of the Torrey Canyon and Amoco Cadiz (oil tanker accidents) were covered and settled in Luxembourg," Mr. Muhlen said.

He said the two mutual insurance groups paid a total in premiums of 10 billion francs a year, more than double the premium income generated from domestic insurance activities.

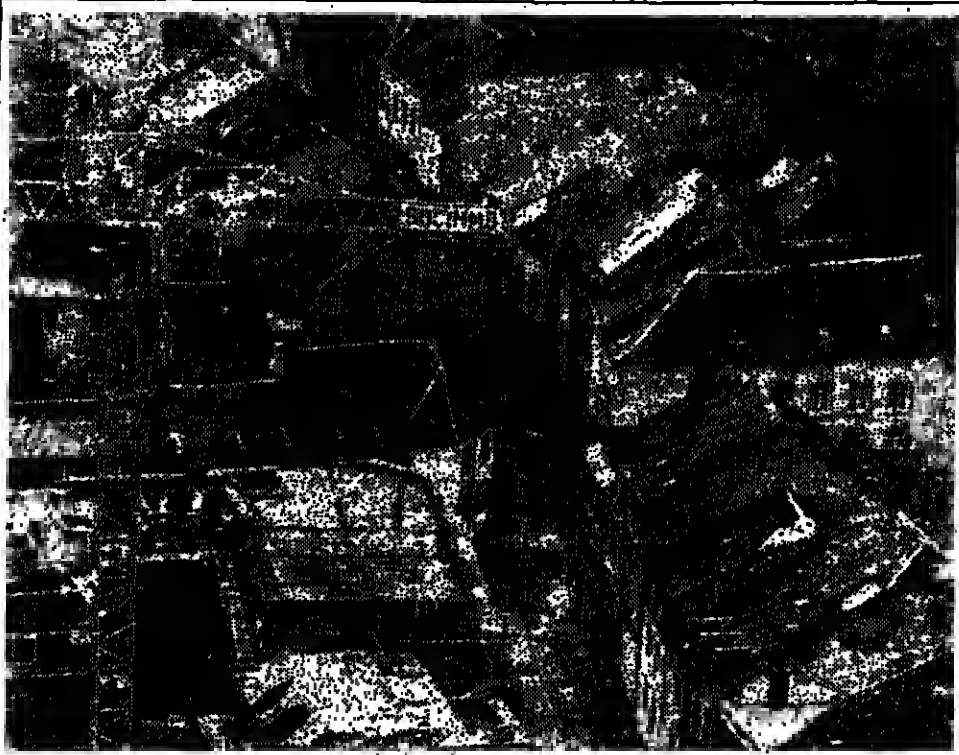
According to figures compiled by the Luxembourg insurance supervisory authorities, premium income derived from domestic business reached 4.4 billion francs last year, a 10-percent increase from 1982.

The insurance companies dispose of reserves of about 10 billion francs, which, in a country of 360,000 inhabitants where business was almost entirely confined to the domestic scene, is not to be underrated, Mr. Muhlen said.

The insurance sector in Luxembourg employs 763 persons, or about 0.5 percent of the working population. Added to this figure are about 5,300 part-time agents who, Mr. Muhlen said, fulfill a useful service in attracting new clients.

But Luxembourg's insurance supervisor, Victor Rod, said the country was not interested in drawing just anybody into its fledgling international insurance sector. "We want to maintain the good name of the Grand Duchy; we care about the solidity and solvency of

(Continued on Next Page)



Construction under way in the city of Luxembourg.

European Currency Unit Trade Rises

(Continued From Previous Page) most enthusiastic boosters of the new money — although French purchasers of ECU-denominated stocks or bonds have to buy the currency at a premium price because of foreign exchange controls. Italian ECU investors in issues by Italian state companies are allowed to make their purchase without having to pay the foreign currency premium. Dominique Rambure, a Crédit Lyonnais official who is one of the bank's negotiators with the BIS and active in the informal clearing group, said he was actively lobbying the French Treasury to have exchange control restrictions eased for ECU dealing, or to allow an issue in ECUs on the French domestic market for French residents.

As a first step, earlier this month

the French government gave permission for ECUs to be bought and sold, like foreign currency, on the Bourse. This is something people or banks can already do on other stock markets, including Luxembourg's, where a market-determined value of the ECU is fixed daily.

There is one market where the ECU is not welcomed. It is West Germany — the home of a hard currency and a land where exchange controls are not normally tolerated. The situation is so unusual that one Luxembourg banker could only explain it by noting jocularly that the ECU is not spelled (as is a certain German beer) "Eku." The Bundesbank has outlawed ECU-denominated dealings between West Germans, citing regulations against currency-indexa-

tion clauses. The key reason for the central bank's opposition is felt to be its long-standing fear of losing control over the money supply if the Deutsche mark becomes a Eurocurrency. Already 13 percent of the world's debt is denominated in marks, and consistent mark holdings are constantly rising. The ECU — 37 percent of which is marks — is a back-door method of creating Euro-Deutsche marks, the West German authorities believe.

There are hints, however, that the official West German attitude is changing. Earlier this year, via its offshore subsidiary, the state-controlled Westdeutsche Landesbank issued a seven-year, 50-million-ECU bond.

Although some market-watchers, such as Mr. Rambure, believe the Bundesbank may be changing

its anti-ECU interpretation of West German banking laws, others are less certain. One of these is the senior international officer at Deutsche Bank Compagnie Financière Luxembourg, Ekkehard Storck. "The Bundesbank does not like ECUs," he said. "Within the EEC there is some pressure favoring change, but there are no indications that the conflict with German banking law is being resolved."

But even without the approval of Frankfurt, the ECU's role is increasing. The composite money is the third most important Eurocurrency in the world, after the dollar and the mark, in the financial and bond markets. In the course of 1984, a Japanese or U.S. company will probably issue the first ECU-denominated convertible bond.

— VIVIAN LEWIS

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- accepting of deposits
- portfolio management

1982		1983
2,059 MILL. US \$	Balance sheet total	2,109 MILL. US \$
957 MILL. US \$	Volume of credits	1,117 MILL. US \$
1,021 MILL. US \$	Due from banks	920 MILL. US \$
16 MILL. US \$	Securities	24 MILL. US \$
1,905 MILL. US \$	Deposits	1,954 MILL. US \$
66 MILL. US \$	Capital funds	93 MILL. US \$

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* The complete balance sheet as well as the profit and loss account will be published in the MEMORIAL, official gazette of the Grand-Duchy of Luxembourg, edition C.

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Statement of Condition as of December 31, 1983 (expressed in US Dollars for operations started May 3, 1983)

Assets		Liabilities	
Current Assets		Current liabilities	926,679,018
Cash and postal cheques	6,669	Borrowed Capital	
Due from banks - demand	194,319,656	Subordinated loan	20,000,000
Due from banks - time	67,778,698	Shareholders' equity	
Loans and advances	93,469,613	Share Capital	40,000,000
Other current assets	9,694,306	Provision for contingencies	1,809,013
	288,268,949		
Furniture and equipment, net	219,089		
Total Assets	288,481,031	Total liabilities	288,481,031

Contingent Accounts
Undrawn commitments 196,534,338
Guarantees on behalf of third parties 13,695,217

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A copy of the full report is available upon request.

WestLB International S.A.

Condensed Balance Sheet as per December 31, 1983

ASSETS	in millions of DM	previous year
Amounts due from banks	3,581.5	3,728.5
Loans and advances to customers	6,611.1	6,122.6
Securities	391.7	384.8
Other assets	337.9	313.8
	10,922.2	10,549.7

LIABILITIES	in millions of DM	previous year
Amounts due to banks	9,436.1	9,430.9
Current deposits and other accounts	563.6	346.3
Other liabilities	275.6	237.4
Share capital	125.5	125.4
Reserves	199.0	186.9
Provisions	309.7	210.4
Profit	12.7	12.4
	10,922.2	10,549.7

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The unabridged annual statement as well as the profit and loss accounts will be published in the MEMORIAL, Amtsblatt des Großherzogtums Luxemburg, Ausgabe C. (Official Gazette of the Grand Duchy of Luxembourg, edition C)

BANKING AND FINANCE IN LUXEMBOURG



The European Court of Justice.

Eurobond Business Recovers Ground

(Continued From Page 7)

ly make much of, but their bread and butter will remain the Eurobond. Breaking down the overall Eurobond market into its constituent Eurocurrency issues reveals Luxembourg as the major Deutsche-mark bond issuer though nowadays it is something of a minor player in the hugely predominant Eurodollar bond league.

Because of its core of 30 extremely active West German banks, Luxembourg has more than 37 percent of the Euro-Dollars that were launched in 1983 at a worth of about \$4 billion. But its portion of the Eurodollar bond business — which traditionally accounts for three-quarters to four-fifths of all Eurobonds — is considerably less. Last year it improved to reach 16.2

percent from 12.7 percent it had sunk to the year before. But is still some way from the 20 percent or so it appeared to have stabilized at by the end of the 1970s.

Luxembourg's bond experts have of late begun to congratulate themselves on the general health and strength of the Eurobond market. As Philippe Marchat, financial manager of the European Investment Bank, said last year to representatives of the 96 banks from 16 different countries who make up the shareholders of the Luxembourg-based CEDEL Eurobond clearing house: "The international bond market is functioning more efficiently than it has done for years."

Mr. Marchat was able to point out that the size of the Eurobond market — \$20 billion, against a mere \$30 billion in 1983 — is now such that there is a substantial "reflux" of funds for new investment from interest payments and capital redemptions of existing securities. He cited a recent estimate by the Orion Royal Bank that by 1987 this return flow of interest payments and capital redemptions should reach more than \$53 billion. And to that there should be added any fresh inflows of capital that might be attracted by the Eurobond market.

This was undoubtedly the sort of analysis the financial institutions that jointly own CEDEL would want to hear. Eurobond growth would not only boost their own activities but it would swell the volume of CEDEL's business, for the clearing house that is the principal rival of the Brussels-based Euroclear now claims to handle about 38 to 40 percent of all Eurobond clearances.

Yet the outlook for the Eurobond sector and Luxembourg's future are less clear than those forecasts might suggest. Since the dizzying expansion in 1982 of the Eurobond market in general and of Eurodollar bonds in particular, the Eurobond market has slackened and consolidated itself. Following the great expansion of 1982, when new issues were \$4.3 billion from \$24.3 billion the year before, the market has settled back.

Some of the pressure for growth was taken out of the Eurobond market by the U.S. banks' successful campaign two years ago to conduct a degree of offshore operations out

(Continued on Page 16)

Gold Maintains a Key Market Despite the Decline in Prices

THE ADAGE that all that glitters is not gold appears to have taken on new significance in the development of Luxembourg's fledgling bullion market.

Investors, ranging from large financial institutions to small private clients, have shared the common attraction to the rewards of a strong dollar bolstered by high interest rates. Tempted by higher yields from Eurodollar deposits, bonds and securities, investors on the whole have tended to neglect precious metals. As a result, prices for gold, silver and platinum have been depressed for several months.

"In periods of recession, people become a bit more conscious about having a more stable and regular flow of income and therefore... in periods where interest rates are high, they are more motivated by that," said Jean Krier, general manager at Banque Internationale à Luxembourg.

But though gold has stayed very much in the wings as an investment vehicle recently, it has, nevertheless, become an integral part of Luxembourg's financial and banking landscape.

Gold trading has found a natural niche in Luxembourg, especially since the country's banking sector has diversified and expanded its

potential as a center for private banking, senior bankers said.

Gold trading in the Grand Duchy was spurred by two factors: the abolition of value-added tax on gold purchases in Luxembourg in January 1978, and the introduction of official quotation of gold, or gold fixing, on March 17, 1981.

The VAT-free status of gold in a country in the center of Europe — elsewhere on the Continent taxes on gold range from 30 percent in Spain to 1 percent in Belgium — has opened new vistas for profit to most investors and the 114 banks represented in Luxembourg.

The West German banks in particular have found VAT-free gold appealing and profitable.

"It has enabled us to sell to our private customers in West Germany, at the correct price, with the single condition that the gold be physically delivered in Luxembourg," said Ernst Krause, deputy manager at Dresdner Bank International, the Luxembourg subsidiary of West Germany's second-largest bank, Dresdner Bank AG.

The West German authorities levy a 14-percent VAT on all gold physically imported into the country, while the Swiss, perhaps surprisingly, charge 6.2 percent. Metal detectors at the West German border

with Luxembourg have failed to keep tourists and profiteers from smuggling in gold bars and coins, though the risk of detection and imprisonment has increased.

"We can caution potential buyers of gold bars and coins from sneaking in with their Kruggerands and Mexican pesos but we can't prevent them," said a senior gold dealer in Luxembourg.

But in terms of volume, gold trading — physical gold delivery using vehicles such as coins or the standard 400-roy-ounce gold bar — figures low on the list of instruments available to the potential investor in gold.

According to bankers in Luxembourg, booked precious metals primarily for use in the gold and jewelry trade, as well as for industrial production, figure high on the list, as do certificates of gold deposit.

The latter are an interesting investment vehicle in that, like corporate shares, they are without physical delivery and thus can be traded in line with the VAT-free market price. In this respect, the unalloyed kilobar held in the Grand Duchy is another popular instrument in gold trading.

"We issue gold certificates,"

(Continued on Next Page)

World Insurance Business Is Growing

(Continued From Previous Page)

those companies interested in setting up business here," he said.

Those interested included new entrants, Takafal, a Saudi-backed insurance company, with an investment policy aimed at the principles of the Koran. This was a clear case of the Luxembourg authorities responding to the call for diversification from areas other than the banking sector.

But it is the captives that have made the most inroads into the new sector so far. Now numbering six and including the insurance arms of the Swedish companies Electrolux, ASEA and Atlas Copco, these

companies insure the risks of the parent company with headquarters far afield as, in this instance, Stockholm.

Such a captive enables the parent at home to insure its own risks and to deduct from taxes the premium reserves. This instrument has obvious advantages in a highly taxed country such as Sweden, insurance analysts say. The captive also enables large multinational companies such as Electrolux to win access to the wholesale market in reinsurance, if it does not wish to cover all its risks.

However, as Mr. Rod pointed out, the Luxembourg supervisory

authorities are wary of captives taking on risks outside the confines of the parent company.

The campaign to attract the reinsurance business has already resulted in one major success for the Luxembourg authorities. Cofax, a subsidiary of the French reinsurer giant La Licorne, with participation from Luxembourg's steel enterprise ARBED, has become the first reinsurance company to set up shop in the Grand Duchy, Mr. Muhlen said.

But there are obstacles facing the Luxembourg authorities in their desire to attract general reinsurance and captive insurance and re-

insurance. First, the country has no domestic reinsurance market. In London, where most international reinsurance business now takes place, a large domestic market holds sway. Second, Luxembourg is by no means a tax haven, unlike Bermuda and the Cayman Islands, where most of the world's captive insurance companies are based.

But, as both Mr. Muhlen and Mr. Rod said, Luxembourg is centrally located in Europe, it is politically and socially stable and it possesses the essential banking structure to provide financial services linked to the insurance sector. —MICHAEL METCALFE

Domestic Banks Are Broadening On Global Scale

(Continued From Page 11)

It is a priority we intend to pursue," Mr. Israel said.

On the international syndicated credit market, developments last year were far more subdued, overshadowed as the international banking community was by the continuing debt crisis and rescheduling burdens of the Third World.

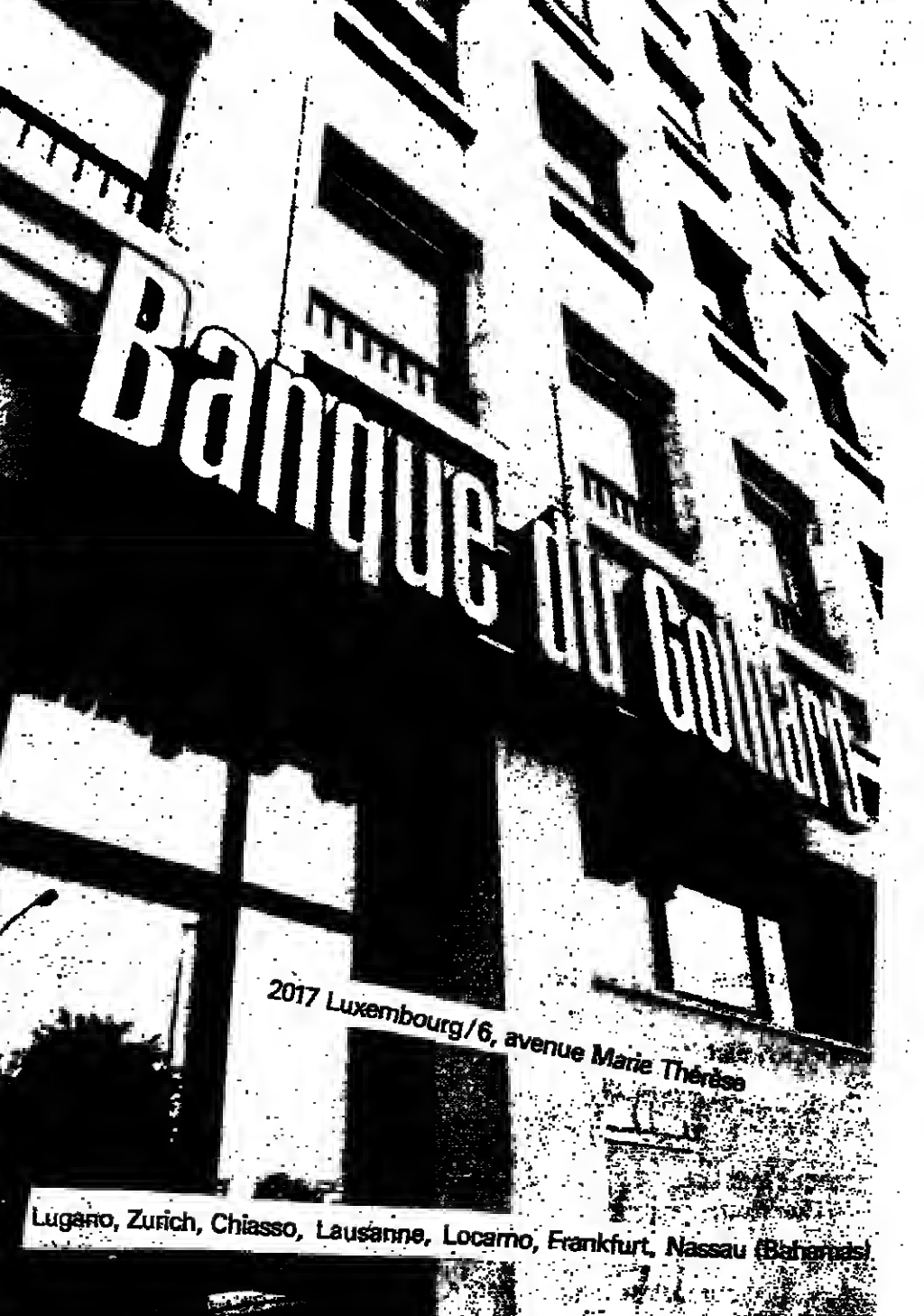
Banks such as BIL and Banque Générale chose to continue to adopt a low profile in debt rescheduling of developing countries and, by keeping their exposure in this area to a minimum, helped to focus their international lending activities on borrowers from the industrialized countries in Europe and North America.

In terms of office expansion overseas, Luxembourg domestic banks have on the whole been careful not to set up too many banking institutions at once. BIL is firmly established with a merchant bank in Singapore and has representative offices in London and New York.

"The principal activities of the [Singapore] bank in 1984 will remain international financing... isuing of or participation in debenture loans; a particular emphasis will be placed on portfolio management and participation in documentary credits," BIL said of the activities of its Singapore operations in the annual report.

Banque Générale has representative offices in Hong Kong, Milan and Mexico City. It prefers to work through correspondent banks rather than establishing branches abroad.

BIL's international connections extend to about 120 countries through its membership in ABCOR, the Associated Banks of Europe, a group formed in 1974 by major European banks to develop a full range of coordinated financial services, including merchant banking, for corporate and personal clients throughout the world. —MICHAEL METCALFE



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BANKING AND FINANCE IN LUXEMBOURG



Inside the dining area of the new Le Royal hotel.

A Newcomer on the Boulevard Royal Is Expected to Change the Hotel Scene

LUXEMBOURG's banking center, the Boulevard Royal, is about to be graced with an institution missing from larger financial markets. You can search all over Wall Street or London's Threadneedle Street and not find one of these. If all goes according to plan, however, by the end of the month Luxembourg will have a five-star luxury hotel in the middle of bankers' row.

Le Royal hotel is being built by Swiss Tradition Hotels, owners of the Carlton in St. Moritz, the Montreux Palace and the Lausanne Palace — where in the high season you can spend up to 2,500 Swiss francs (\$1,100) a night. The money winds up in a holding company called Sodereal (not in Luxembourg but in Fribourg, Switzerland), the majority of whose shares are owned by Swiss investors represented above all by Paribas-Suisse and Hofstetter, Landolt & Cie, a private Swiss bank. Partly because of the Swiss connection, perhaps, building the Royal in the rival banking capital of Luxembourg has been difficult.

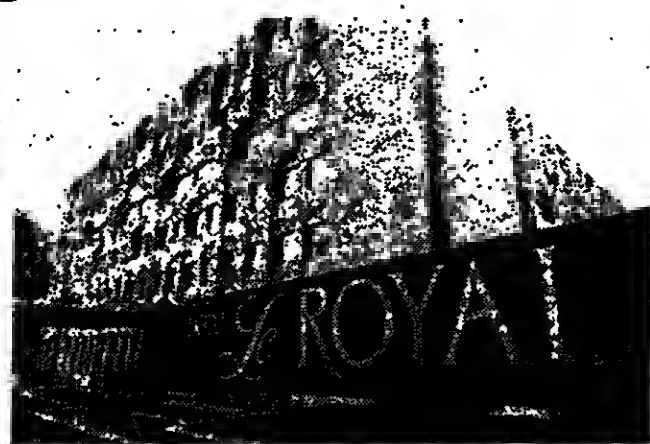
First, the Luxembourgis, eager to protect the skyline of their tiny capital, forced the Swiss group to reduce the size of the proposed building from 240 rooms to 180. Then, between inefficiency and poor weather, the hotel has not met its deadlines and will almost certainly not be opened as advertised during the spring of 1984, before June 21. Only two floors and some public rooms will be ready before the month is over.

Even more troubling to the Swiss

is the prospect of competition thanks to overbuilding. To be sure, there will be the only international-class luxury hotel in the city center, barely touched by the less plush, smaller hotels Rix and Cravat, to say nothing of the traveling salesmen's hostels near the railroad station across the ravine. But, in addition to the Sheraton Aerogolf (150 rooms) near the airport and the Holiday Inn (260 rooms) near the European Community offices, Luxembourg expects a spate of new suburban hotel-building, all undertaken since Le Royal broke ground. By February, the 348-room Intercontinental is scheduled to open; the Novotel, which opened with 121 rooms and 300 beds, has nearly doubled in size and by the end of the year will have been brought to 293 rooms sleeping 750 persons.

Perhaps as a result, prices at the Royal are being pitched at levels well below what Swiss Tradition charges at the Palace in Montreux. When it is completed the royal suite will cost a mere 12,400 Luxembourg francs a night, including breakfast (children under 6 are free and children ages 7 to 15 half price if they share the suite with their parents or stay in any other room). A single is 3,100 to 3,900 francs, a double 4,100 to 4,900 and a roturier (commoner's) suite a modest 7,200.

Visitors will have access to state-of-the-art communications (often lacking in Luxembourg hotels), security, parking, a swimming pool and gym, meeting rooms, 24-hour



Outside the new Le Royal.

service, a restaurant serving nouvelle and traditional cuisine, a midnight-blue-with-gilt-flack piano bar and a splendid view amid the greenery of the town park. The decor is soothingly blue or earth-tone in the bedrooms; a bit more imaginatively outdoorsy to Le Jardin, the breakfast room; and an appalling hot orange in some of the below-grade public rooms.

A nice touch is that one room on each floor is fitted for patrons in wheelchairs. But, in general, the hotel is relatively lacking in innovation, merely safely Swiss.

To try to ensure business, having built a businessman's hotel in the center of town, the Royal is hedging its bets by trying to lure excursion groups on weekends. Bargain rates are offered for upmarket tour groups — linked to the Echternach music festival, for example, or to corporate incentive programs such as one for successful salesmen who get to go on holiday trips with their wives at company expense. These rates will be one-third to one-half the mid-week levels.

With a maximum of 320 guests, the Royal will have a staff of 110, about 60 percent Luxembourgis. There will be 15 suites, 55 single rooms and 110 doubles with twin beds or queen-sized beds. All rooms have bath or shower and are air-conditioned.

— VIVIAN LEWIS

Gold Maintains Place as Key Market

(Continued From Previous Page) which are redeemable on request of the holder — let's say, the investor who doesn't want to buy just a kilogram, or multiple of kilograms or so many ounces at once, so he can have in smaller denominations a bearer's certificate in gold," said Edmond Israel, executive board member of Banque Internationale à Luxembourg.

But there are investors who are wary of the certificates, believing that a piece of paper can hardly prove much of a hedge against a collapse of the world banking system. They prefer to opt for gold coins: — South Africa's Krugger-

rand, Canada's Maple Leaf or France's and Switzerland's 20-franc pieces. The minting of gold coins in Mexico was suspended last year for the second straight year, but sales from existing stocks still abound.

The Luxembourg Bourse, in deciding to introduce the official quotation of gold in 1981, did not presume to think that the daily gold fixing would take on the illustrious and influential role of its London and Zurich counterparts. But while not rivaling the British or Swiss fixings, the Luxembourg gold fixing has drawn the attention and secured the confidence of private and corporate investors, usually

those in or near Luxembourg, local bankers said.

Major price shifts in gold do not emerge from the Luxembourg gold fixing, but, should a surge in demand suddenly materialize in the Grand Duchy and cause a premium to develop between the local fixing and that in, say, in London, gold dealers would be swift to arbitrage it away, the bankers said.

The fixing, which is made for a one-kilogram bar with a fineness of 999.9/1,000 as well as for the standard quantity of 400 troy ounces, takes place at 10.30 A.M. every trading day under the supervision of bourse authorities, stock exchange officials said.

Admission to the market is restricted to members of the stock exchange, with prices expressed in Luxembourg francs per kilogram bar and in dollars per troy ounce. Commissions and fees are charged by the authorized members for the deals transacted.

Though gold transactions are exempt from taxes and duties, bankers in Luxembourg agree that there is little likelihood of the authorities extending the VAT-free status to silver or platinum. Silver is mainly traded over metal accounts, and the VAT applies only to physical transactions.

— MICHAEL METCALFE

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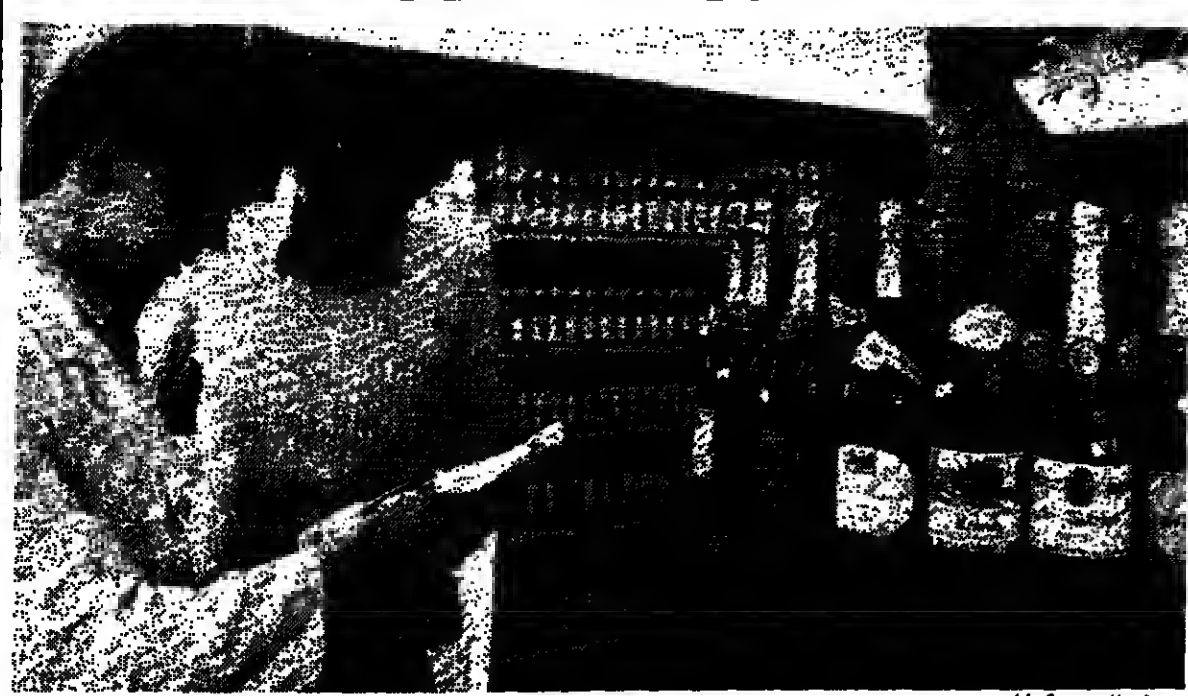
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BANKING AND FINANCE IN LUXEMBOURG



Luxembourg wines on display in a city shop.

John Cooper-Hunt

Asset of Another Sort: Wines Produced in the Grand Duchy

THERE IS one kind of liquidity Luxembourgians like to keep to themselves: not the banking sort, but wine.

The art of producing fine, if little known, white wines plays an often underestimated role in the Grand Duchy, sandwiched as it is between the great wine-growing areas of France and West Germany.

Very little of the country's small annual production ever crosses its borders, except possibly to Belgium. It is well-nigh impossible to find a bottle of Luxembourg wine in France. But in the solid, comfortable restaurants of Luxembourg City's medieval quarter, these dry, fruity wines abound.

"We make a point of offering our clientele a wide selection of Luxembourgish wines with our dishes, and they are very rarely disappointed," said the sommelier at La Rotisserie on the narrow, winding Rue de l'Eau.

The Grand Duchy's vintners, who work in some

of the most northerly vineyards in the world, went through hard times recently. In 1978, 1979 and 1980 they had disastrous harvests, with 42 percent, 35 percent and 27 percent, respectively, of an average medium-quality crop harvested. Prime Minister Pierre Werner recalled in a recent speech to the Chamber of Deputies.

The government gave the vintners direct subsidies totaling 158 million francs, as well as low-interest loans.

But 1982 was an outstanding year for winemaking in Luxembourg, "a real vintage year for both forms of liquidity, banking and wine," said Jean Krier, general manager at Banque Internationale à Luxembourg.

Last year's output, while below 1982's record levels because of unfavorable weather, still produced a bumper harvest of 175,000 hectoliters (4.62 million gallons) of high-quality wine, about 25,000 hectoliters above the yearly average.

Most of Luxembourg's wine-growing region centers on the western banks of the upper reaches of the Moselle River, as it winds its way down the southern fringes of the Grand Duchy's border with West Germany.

The wines of Grevenmacher, Remich and Mertert cannot be compared with their German cousins, as the German fermentation process is stopped earlier, resulting in a sweeter wine. The dry Luxembourgish white wines are perfect for one of the country's specialties — *trille friture Grand-Duchesse*, stuffed trout in a wine cream sauce.

About half the grapes grown in Luxembourg are Riesling, a close relative of Sylvaner and Kerner. The wine most popular among Luxembourgians, however, is a dry, light wine called Elbling, which, after Riesling, accounts for the second-largest output. Small quantities of Traminer, Pinot Blanc and Gris and Kerner are also produced.

—MICHAEL METCALFE

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2 TV Systems Battle for Ratings and Advertising

A BATTLE for ratings and advertising revenue is going to be fought between two huge television systems in the sky above tiny Luxembourg. The Luxembourg government will be in the happy position of collecting licensing fees from these rivals in satellite telecasting: Radio Luxembourg with two channels via a French satellite called TDF, and the streamlined newcomer called Coronet with 16 much weaker medium-wave channels.

Coronet, a new operating company, won the second Luxembourg telecasting franchise May 25 through a holding company controlled by Luxembourg financial interests and pension plans. It is run by Clay T. Whitehead, head of the U.S. Office of Telecommunications Policy under President Richard M. Nixon and former head of Hughes Communication. Behind Mr. Whitehead are a group of European investors from the press and electronics industry, who have not been named. They have given the Luxembourg government assurances that European program material will be created for the new stations, aiming at cable and pay-TV outlets.

In the other corner is the elusive native son, Radio Luxembourg, which is considerably broader and more international than the name by which it is popularly known. For more than 30 years, the company now officially called Compagnie Luxembourgeoise de Télédiffusion, or CLT, has been in television as well as radio. It has been both a private company seeking, often unsuccessfully, to make a profit, and, since its founding in 1929, a public-service monopoly regulated by Luxembourg law. That monopoly was ended by the new franchise.

The reason may be that Radio Luxembourg is not as much of a Luxembourg company as either of its names would imply. Though its board has a majority of Luxembourgers, including representatives of the major political parties, its largest shareholder is Banque Bruxelles-Lambert of Belgium. Even that is misleading, since the bank's control is exercised through a holding company called Audiophon, in which the French government, through Agence Havas, 51 percent controlled by the government, has a blocking minority.

Together with other direct French shareholders, such as the nationalized banking group Paribas and the publisher Hachette, Audiophon makes sure nothing is broadcast that displeases Paris. CLT runs the largest for-profit private radio network in France, Radio Luxembourg, and the leading private French-language television system in French-speaking Belgium and northeastern France.

Luxembourg's position as a small independent country with its own broadcasting bands has been the key to profits at CLT, attracting foreign audiences and foreign advertising revenue. Now, for the first time, the CLT monopoly is being broken, in a deliberate decision by Prime Minister Pierre Werner. With CLT agreeing to use bands assigned to France by the International Telecommunications Union, Mr.

Warner was free to assign the Luxembourg channels to Coronet.

The French satellite agreement, which CLT is still negotiating, will be as much in the French national interest as Luxembourg's. The 200-watt TDF, which will cost 3 billion French francs to launch, is going up primarily so that France can sell satellite technology to India, China and Africa. The only problem is finding programs for the powerful satellite to broadcast. Under the draft agreement, CLT will have two channels to beam telecasts in German and French and to pay for its programming will be free to sell advertising time without many limits.

CLT, through a joint venture with the powerful Bertelsmann publishing group of West Germany, produces German-language television programming, now ground-transmitted. It also serves Belgian cable companies and does radio broadcasting in English, beamed at 2 million British listeners through medium-wave pop-music stations. (English-language broadcasting at Radio Luxembourg dates from the 1930s.)

CLT's head of operations, Gust Graas, said he expected the French and Luxembourg governments to go ahead with the TDF agreement. And he indicated that he shared "French fears that too many commercial channels will result in too many programs trying to win audience attention." His assistant, Daniel Schwall, was even blunter about the Coronet threat: "There is not enough money to fund unlimited competition. Despite our elusive license, for which we pay the government, it [the government] is providing financial guarantees to our rivals."

CLT was offered participation in Coronet, and refused. It is not yet certain, however, that Bertelsmann will not hedge its bets by going with the new group. Coronet hopes to get a pool of European backers to launch a lighter, 50-watt satellite. It is hoped that the two satellites will be in place by the end of 1985.

The group actually receiving the government license is not Coronet, which is a subfranchise of the Luxembourg-incorporated company that signed the deal with Mr. Werner. That company, Société Luxembourgeoise des Satellites, or SLS, is held 22.5 percent by the state-owned savings bank fund (Caisse d'Épargne), 22.5 percent by Société Belge de Crédit et d'Investissement, the state investment bank; 10 percent by the private employees' state pension fund, and 45 percent by Mr. Whitehead. SLS is a minority shareholder in Coronet, the operating firm.

Unlike CLT, SLS has given undertakings to the Luxembourg government about the nature of its telecasts, promising that no U.S. network will be admitted as shareholders in Coronet and that most channels will be leased most of the time to European (rather than American) program companies.

—VIVIAN LEWIS



Entrance to the RTL complex.

John Cooper-Hunt

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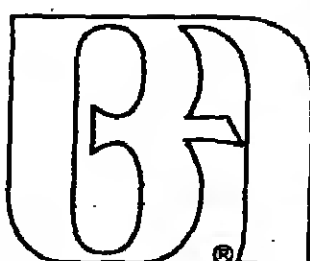
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Eurobonds Recover

(Continued From Page 14)

of New York. Fortunately for Luxembourg, ideas for a similar relaxation of West German restrictions that would have allowed a variation of the new U.S. International Banking Facility to be operated by the Frankfurt and Berlin banks were turned down by the Bundesbank. As it was, 1983 was a year of doldrums for the Eurobond market as a whole, with issues running at just over \$44 billion for the year.

The area of the Eurobond sector that Luxembourg scrutinizes with the closest interest is one that accounts for 4 percent of all bond issues — the tiny but technically interesting ECU-denominated bond business that is the invention of Luxembourg bankers. The first European Currency Unit bond was floated by the Kredietbank Luxembourg in March 1981 on behalf of part of Italy's Stet Electronics. That modest 35-million-ECU initial bond was followed during that year by four loans denominated in what is in effect a basket of the currencies in the European Monetary System.

"ECU bonds have become very attractive to what we call the 'Belgian dentist,' the Benelux private investor if you like," said Jean Adant, administrative director of the Kredietbank Luxembourg-geoise. Together with the two other major Belgian-linked banks in Luxembourg, Banque Générale and Banque Internationale à Luxembourg, Kredietbank has during the last three years hugely expanded the number and the size of ECU bonds. In the first few months of this year there were 26 issues totaling 1.4 billion in value and bringing the worth of outstanding ECU bonds to more than 5 billion ECU. Together with other ECU devices ECU business is now estimated by Mr. Israel at 10 billion ECUs.

The three major banks are now eager to see the ECU bond market "institutionalized" in the sense of the financial institutions starting to hold and trade the new bonds in the same way that private investors do. Although ECU bonds would, if it were not for the European Commission's enthusiasm for them, risk being dismissed by some as curiosities, the Luxembourg banks insist that there is an increasingly active secondary market in them. The ECUs outstanding, they say, now equal as a monetary market the Euroguilder, the primary market

speaks for itself with issues now averaging 50 million to 60 million ECUs, and the secondary market with trades averaging a quarter of a million ECUs is comparable to that of the Euro-DM. The major problems are that the volume of secondary trading is still low, and many dealers still view the ECU as artificial.

—GILES MERRITT

CONTRIBUTORS

SHERRY BUCHANAN is a Brussels-based financial journalist who contributes frequently to the International Herald Tribune.

VIVIAN LEWIS and MICHAEL METCALFE are Paris-based financial journalists.

GILES MERRITT is a Brussels-based journalist who follows Luxembourg financial affairs, among other things.

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EUROBONDS

Signs of Slowdown in U.S. Cause Manic Market Swing

By CARL GEWIRTZ

International Herald Tribune

PARIS — The Eurobond market turned manic last week as the conviction spread that good happenings are in store. For the bond market, good news means a slowing in the pace of the U.S. business recovery, which would mean less pressure on interest rates.

Slower growth is widely forecast and appeared to be heralded by the midweek report of a scant 0.2-percent rise in May retail sales. Further confirmation came late Friday with news that industrial production last month advanced a very modest 0.4 percent while wholesale prices were unchanged from April.

The good news should culminate this week in the first "flash" report on the estimated growth in the second quarter gross national product. This is expected to register a 3-to-4-percent rate of annual growth, down from the torrid 8.8-percent annual pace of the first quarter.

That, coupled with the continuing debt-servicing problems of Latin American borrowers, should drive the Federal Reserve to allow interest rates to decline, many market participants believe.

On top of all this, rumors spread Friday that the U.S. Congress was about to abolish the withholding tax on interest payments — opening the U.S. bond market, and particularly Treasury bonds — to foreign investors who did not want to pay that tax. As a result, dealers reported massive buying, especially from the Far East, of U.S. government paper. As prices of that paper rose, the yields, which move inversely, declined.

With Treasury yields falling, prices on all other debt instruments moved in tandem and by late Friday a full blown rally was under way.

Only two fixed-coupon dollar bonds were offered last week and both were grabbed up. GMAC Overseas offered \$200 million of two-year notes bearing a coupon of 13 percent. These were priced at a premium of 100.325 for a yield of 12.81 percent.

The premium pricing, dealers said, was intended to offset the 14-percent commissions paid to market the notes. The commissions, deemed large by the borrower, were seen as necessary to assure successful placement and the cost was partially recouped through the pricing.

On Thursday night, when the package was put together, the cost of funds to GMAC was about equal to similarly dated U.S. Treasury paper. But with the early gains that were recorded at Friday's opening, the GMAC paper was yielding 40 basis points over comparable Treasury notes by the time the offering was announced. As a result, the GMAC notes ended the week quoted at a touch under par.

Nippon Credit, the only other new issue, had no problem placing \$100 million of five-year notes bearing a coupon of 13 1/2 percent. These ended the week quoted at 99.

The floating-rate note market also fared well, with Sweden

Eurobond Yields

For Week Ended June 13

U.S. 10-year term, 10% inst.	13.57 %
U.S. 10-year term, 10% inst.	13.67 %
U.S. 10-year term, 10% inst.	13.58 %
U.S. 10-year term, 10% inst.	13.61 %
French 10-year term, 10% inst.	13.12 %
Yen 10-year term, 10% inst.	7.80 %
ECU 10-year term, 10% inst.	10.23 %
ECU 10-year term, 10% inst.	11.08 %
ECU 10-year term, 10% inst.	11.23 %
ECU 10-year term, 10% inst.	9.23 %
FLX 10-year term, 10% inst.	11.00 %
FLX 10-year term, 10% inst.	10.67 %

Market Turnover

For Week Ended June 15

Credit	18,707.9	8,726.4	1,381.5
Equity	19,471.4	18,362.	1,269.6

U.K. Strike Worries Financial Markets

By Bob Hagerty

International Herald Tribune

LONDON — As Britain's coal strike enters its 15th week, the financial community is edgy but not yet alarmed about the economic consequences.

The strike, which has closed about three-quarters of the country's 180 mines, already is the longest since 1926. After last week's breakdown of negotiations, no solution seems imminent.

The trigger for the strike was the National Coal Board's announcement in early March that it intended to close 20 mines, or about 4 percent of production capacity, at a cost of 20,000 jobs. But the immediate issues have become submerged in the personal struggle between two men of notoriously strong will: Arthur Scargill, president of the National Union of Mineworkers, and Ian MacGregor, chairman of the coal board.

Mr. MacGregor told reporters last week that Mr. Scargill was "making statements that have little or no connection with the truth." In a newspaper interview, Mr. Scargill had a different explanation. "MacGregor has got this unusual persona: He either deliberately or innocently forgets what he said a week ago," he said.

The bickering has not soothed the financial markets. During the past three months, the pound has slipped 2 percent against a trade-weighted index of other major currencies, while the Financial Times industrial share index has dropped 6 percent.

Many investment analysts figure that rising U.S. interest rates and related fears of a banking crisis have been the main factors undermining confidence but that the coal strike has also played a major role. Given the level of uncertainty about both rates and coal, says Gavyn Davies, economist at Simon & Coates, "we're not advising people to hold sterling at the moment."

For now, most analysts judge that the government is in a stronger bargaining position than the miners. Even so, the market remembers that the 1974 coal strike helped bring down the Conservative government of Edward Heath.

The current Conservative government seems determined to defeat Mr. Scargill soundly. Last week, Prime Minister Margaret Thatcher dismissed the notion that the world was for peace over coal and sandwiches at No. 10. "But some analysts fear that Mrs. Thatcher eventually will be forced to 'climb down' and offer major concessions."

"That would be an enormous negative" for the government bond markets, says Richard Jeffrey, an economist at Hoare Govett Ltd. Investors would fear that victory for Mr. Scargill would embolden other unions, push up pay demands and send inflation sharply above its current level of 5 percent a year.

Coal accounts for about a third of all energy use in Britain, and the strike is inflicting at least temporary damage on the economy. Steel output in May was 14 percent below the year-earlier level, mainly because coal supplies are being disrupted at some plants.

Reflecting the drop of coal and steel output, overall industrial



Ian MacGregor



Arthur Scargill

production has fallen 1.5 percent in the past three months from the level of the prior three. At the beginning of the year, most economists were looking for economic growth of 3 to 3.5 percent, but some already have shaved as much as a percentage point from their forecasts. The difficult question is how much of the lost output will quickly be made up after the strike ends.

The state-owned coal industry normally soaks up about £25 million (\$34.5 million) a week in loans and subsidies. Simon & Coates estimates that the strike is adding £34 million a week of losses.

The strike also hurts the trade accounts, as evinced by April's record deficit. Additional use of oil and imported coal is causing a deterioration of £150 million to £200 million a month in the trade account, according to Phillips & Drew.

Official estimates of coal inventories, disputed by the miners, suggest that the government could refrain from ordering cuts in power consumption for at least several more months. The miners would have to hold out until November or December "before the strike really begins to bite," argues Keith Skeoch, an economist at James Capel & Co.

Many stockbrokers expect the miners to cave in before summer is out. "The financial squeeze is getting pretty acute at the moment," Mr. Skeoch says.

At Simon & Coates, though, Mr. Davies warns that if the miners can hold out through August they will take heart from the approach of winter and heavier coal use. "It does not appear to me obvious that they will be starved back to work in the next few weeks," he says.

BIS Says Deficit In U.S. Imperils World Recovery

By Paul Lewis

New York Times Service

BASEL, Switzerland — The United States must take immediate action to reduce its budget deficit, which has become a threat to economic recovery throughout the world, the Bank for International Settlements said Sunday in its latest annual report.

The institution acknowledged that the deficit had initially helped to fuel the recovery in the United States, had boosted economic growth in other countries and eased the Third World's debt burden.

But, it went on, those gains are now outweighed by the negative impact of high interest rates and an overvalued dollar, for which the deficit is also responsible.

Indeed, the report said, the present U.S. financial situation, "combining large public-sector and current account deficits, high interest rates and substantial capital inflows, can hardly be considered sustainable."

Rather, the BIS continued: "It should be a source of concern to any country, and in particular to the world's dominant economy."

The new report by the BIS, which oversees the international banking system for its principal shareholders, the major Western central banks, gave little credence to Treasury Secretary Donald T. Regan's contention that there is no connection between the budget deficit and high interest rates.

"This report shares the widely held view that the main reason for the current level of interest rates is the high and rising structural component of the United States deficit," it said, continuing:

"Only an early and major reduction of the structural component of the United States budget deficit could steer the United States economy, with the prospect of a 'soft landing,' toward better external and internal balance, and therefore slower and more durable growth."

The report concluded: "Without such a reduction, the imbalances will still be corrected — but the danger is that the process could well involve higher interest rates, worldwide economic, financial and

exchange-rate disturbances and, eventually, a sharp downturn in economic activity."

The BIS report conceded that sustained Western economic growth, the only effective solution to high unemployment and the Third-World debt crisis, requires more than lower U.S. interest rates.

All Western countries must continue to fight inflation, it said, while European countries, in particular, need to boost industrial investment and iron out "rigidities" that inhibit their economies.

In addition, the report said, the industrial West must keep its markets open to Third-World exports.

Argentina Says U.S. Move Won't Hurt Debt Talks

Reuters

BUENOS AIRES — The U.S. decision not to extend a \$300-million loan guarantee in Argentina beyond midnight last Friday has not altered the framework of its talks on refinancing its debt, according to Economy Minister Bernardo Grinspun.

The loan from Mexico, Brazil, Colombia and Venezuela should be repaid by June 30. But Mr. Grinspun said Friday that Argentina is exploring ways of settling its commitments to the lenders or of obtaining an extension.

In addition, a senior Economy Ministry source said a U.S. Treasury offer to consider a future Argentine request for a new loan arrangement is more favorable because it does not have a deadline.

But the source said he did not believe that Argentina would make great progress toward an agreement with the International Monetary Fund before June 30, partly because the IMF director, Jacques de Larosiere, will be out of Washington this week.

Conrail Notes It Can Reject All Current Offers

By Agis Salpukas

New York Times Service

NEW YORK — The directors of Conrail have told Elizabeth H. Dole, the secretary of transportation, that they would reserve the right to make or support other offers for the railroad if they felt that none of those submitted by Monday were to the best interests of the corporation.

The board made its intentions known in a letter sent to Mrs. Dole Thursday, four days before the deadline she had set for all interested parties to submit their bids.

It is unclear what effect the resolution of the board will have. The Northeast Rail Service Act of 1981 does not require that the Conrail board approve of any sale. The act provides only some guidelines for disposing of the railroad.

If the board opposes Mrs. Dole's choice, it could have an effect on Congress, which must pass enabling legislation for Conrail to be sold.

When asked what the board might do if Mrs. Dole ignores its wishes, Saul Resnick, the director of media communications for Conrail, said, "The letter speaks for itself." He added that the board "had the duty in fact to assure the long-term viability of the company."

Executives' Association have made one that they value at about \$2 billion. Allegheny Corp., an investment company, has offered \$1 billion in cash and said it would forgo \$1 billion in tax credits gained from past losses.

However, Allen & Co., a Wall Street investment house, announced Wednesday that it would make a bid of \$1.1 billion plus an undisclosed amount in warrants. And Norfolk & Southern Corp. (Continued on Page 21, Col. 5)

U.S. Conferees Set Floor for Foundation Payouts

By Jonathan Fuerbringer

New York Times Service

WASHINGTON — Conferees from the U.S. Senate and House of Representatives have approved a requirement that private tax-exempt foundations pay out a minimum of 4.5 percent of the value of their investment assets each year as charitable contributions.

The action Friday marked the first time that Congress has imposed a minimum contribution requirement on foundations. Present law requires a 5-percent payout, but any or all of that can be for operating expenses.

"Some of us here have felt that if you're in the charity business, you have to give to charity," said Senator Russell B. Long of Louisiana, ranking Democrat on the Senate Finance Committee. He was referring to the fact that foundations are exempt from income tax because they set themselves up as not-for-profit organizations whose purpose is to give away money for public purposes.

Some foundations make no significant contributions, he said. The conferees also approved a "golden-parachute" provision that would tax some settlements granted to executives who leave their jobs after a takeover or merger.

Additionally, a small tax cut was approved for the coal industry for mine reclamation. The projected revenue loss is about \$130 million through 1987.

Representative Dan Rostenkowski, Democrat of Illinois and chairman of the House Ways and Means Committee, and Senator Robert J. Dole, Republican of Kansas, chairman of the Senate Finance Committee, said they wanted to finish shaping the tax bill by Tuesday night.

As of Friday night, the conferees had raised about \$44 billion in prospective revenues through 1987, according to a staff estimate. Friday's changes had no major impact on the total.

The goal is a tax bill in the \$50-billion range, which would be part of an overall deficit-reduction

package. Because the final bill is expected to include some major tax cuts, more than \$50 billion in new revenue will have to be raised to meet this goal.

Mr. Dole, in an interview, said that cuts in health-care programs being considered by the conferees would be dealt with after the tax provisions. This whole package "would be the first half of the downpayment" on deficit reduction that Congress is working on, he said.

Mr. Dole said this half of the package could get to the President Ronald Reagan before Congress starts a three-week recess on June 29 for the Fourth of July holiday and the Democratic National Convention.

The rest of the package, which includes reductions in the growth of military spending and other discretionary domestic spending cuts, would have to wait until later this year when Congress votes on the separate appropriation bills covering these areas, he said.

Mr. Reagan, at a news conference Thursday, said he could sign such a package provided he was sure that the spending in the appropriation bills to be approved later this year was going to be along the lines outlined in his deficit-reduction proposal, which would cut deficits by \$141 billion through 1987.

The so-called golden-parachute provision, which was sponsored by Senator John Chafee, Republican of Rhode Island, would apply a 20-percent excise tax on the amount of "overpayment" to the executive and prevent the paying company from deducting it as an expense.

A settlement would be taxed if it were prohibited by the Securities and Exchange Commission or if it exceeded 300 percent of the executive's average salary. The tax would only be on the amount over 300 percent.

In accepting the plan, the conferees eased the original proposal in the Senate bill, which set the limit at 200 percent and taxed the entire payment if it exceeded 200 percent.

U.S. Bond Prices Rise on Hope Tax to Be Ended

By Michael Quint

New York Times Service

NEW YORK — Bond prices have risen sharply following a decision among traders that foreign demand for U.S. Treasury securities might increase significantly if Congress eliminates the 30-percent withholding tax on interest paid to some foreign investors.

The rise Friday came despite a \$3.1-billion increase in M-1, the narrowest measure of the U.S. money supply, during the week ended June 4. The new increase,

announced Thursday, had been expected to put upward pressure on interest rates. M-1 consists of currency in circulation and money in checking and similar accounts — money immediately available for spending.

Although the Senate and House

must still iron out the differences between their two versions of eliminating the withholding tax, market participants said Friday that some

speculators were buying in anticipation of a more free worldwide market for Treasury securities.

Several investment bankers, who asked not to be identified, said Swiss accounts are among the biggest potential buyers of Treasury securities once the withholding tax is lifted. They added, however, that it is too soon for investor buying and that it is not known when the tax will be lifted.

"When I got to at 8 o'clock, London was going haywire," said a trader in government securities.

"The pent-up demand from foreign buyers might be a quick way of reducing concerns about the heavy supply of Treasury issues," said an investment banker.

Analysts at Money Market Services, an economic news analysis firm in Belmont, California, said Treasury bond trading in London was active "on heavy Asian buying," while European trading accounts were largely inactive.

Signs that Reagan administration officials back the lifting of the withholding tax "would at least partially justify Friday morning's price action," one analyst said.

Although demand from domestic investors was not strong, and some traders saw significant selling, price gains in the Treasury market ranged from slightly more than 1/8 point for two-year notes to more than 1/2 point for long-term bonds.

Speculative demand was strong, analysts said, in part because the recent pattern of price changes in the Treasury market was interpreted by technical analysts as pointing toward additional gains.

U.S. Consumer Rates

For Week Ended June 15

Passbook Savings	5.50 %
Tax Exempt Bonds	10.59 %
Bank Buyer 20-Bond Index	10.59 %
Money Market Funds	9.87 %
Dominion's 7-Year Average	9.87 %
Bank Money Market Accounts	9.40 %
Bank Rate Monitor Index	9.40 %
Harris Mortgage	14.34 %
FHLB average	14.34 %

Higher prices for Treasury issues were also supported by the morning announcement of no change to the Producers Price Index for May and a modest four-tenths of 1 percent rise in industrial production for May.

Late in the day, market participants were reminded of the strong demand for business credit when the Federal Reserve announced that business loans outstanding at large banks across the country rose by \$1.43 billion to the week ended June 6.

In the short-term market, rates were mixed amid small changes. The overnight rate for bank loans in the federal funds market opened at 11 percent and rose as high as 11 1/2 percent. Although it was the second consecutive day with a rate above 11 percent, economists said the high rate was related to the June 15 corporate tax payment date.

In advance of Wednesday's auction of new two-year Treasury notes, traders in government securities offered the notes with a yield of 12.66 percent. The 13 1/2 percent Treasury bonds due in 2014 traded at a record high of 101 6/32.

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17	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
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BOND		PRICE		YIELD		MATURITY	
NO.	DESCRIPTION	PRICE	YIELD	NO.	DESCRIPTION	PRICE	YIELD
1	U.S. GOVT. BOND	100.00	4.00	11	U.S. GOVT. BOND	100.00	4.00
2	U.S. GOVT. BOND	100.00	4.00	12	U.S. GOVT. BOND	100.00	4.00
3	U.S. GOVT. BOND	100.00	4.00	13	U.S. GOVT. BOND	100.00	4.00
4	U.S. GOVT. BOND	100.00	4.00	14	U.S. GOVT. BOND	100.00	4.00
5	U.S. GOVT. BOND	100.00	4.00	15	U.S. GOVT. BOND	100.00	4.00
6	U.S. GOVT. BOND	100.00	4.00	16	U.S. GOVT. BOND	100.00	4.00
7	U.S. GOVT. BOND	100.00	4.00	17	U.S. GOVT. BOND	100.00	4.00
8	U.S. GOVT. BOND	100.00	4.00	18	U.S. GOVT. BOND	100.00	4.00
9	U.S. GOVT. BOND	100.00	4.00	19	U.S. GOVT. BOND	100.00	4.00
10	U.S. GOVT. BOND	100.00	4.00	20	U.S. GOVT. BOND	100.00	4.00

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**Department of Posts
and Telecommunications**
Pretoria, Republic of South Africa
DM 150 000 000
8½ % Bearer Bonds of 1984/1991
Issue Price: 100 %
Irrevocably and unconditionally guaranteed by the
Republic of South Africa

Berliner Handels- und Frankfurter Bank	Deutsche Bank Aktiengesellschaft
Commerzbank Aktiengesellschaft	Swiss Bank Corporation International Limited
Kreditbank International Group	Crédit Commercial de France
Bayerische Landesbank Girozentrale	
Nedbank International	
Finer Bank engesellschaft -FINANZ AG h Eastman Palne Webber ational Limited mpagnie de Banque Investissements, CBI dit Industriel d'Alsace de Lorraine dit Lyonsals dit Suisse First Boston ited ditanstalt-Bankverein BANK tsche Genossenschaftsbank tsche Girozentrale tsche Kommunalbank - Bank tsche Siedlungs- Landesrentenbank on, Kead Overseas poration xel Barmham Lambert orporated etenbank-Warburg engesellschaft omobiliare S. p. A. opean Banking Company ited ina International ited	Morgan Stanley International Norddeutsche Landesbank Girozentrale Österreichische Länderbank Aktiengesellschaft Sal. Oppenheim jr. & Cie. N. M. Rothschild & Sons Limited J. Henry Schroder Wagg & Co. Limited Smith Barney. Harris Lipham & Co. Incorporated Société Générale Strauss, Turnbull Limited Trinkaus & Burkhards The Trust Bank of Africa Limited Union Bank of Switzerland (Securities) Limited Verena- und Swissbank Aktiengesellschaft J. Vontobel & Co. M. M. Warburg-Brinckmann, Wirtz & Co. Weissdeutsche Landesbank Girozentrale Westfalenbank Aktiengesellschaft Württembergische kommunale Landesbank Girozentrale

Bayer
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another

Los Angeles
Chicago
Dallas
New York
San Francisco
Atlanta
Denver
Phoenix
Portland
Seattle
Tokyo

Bayerische continues its success in 1983. With consolidated sales of over DM 113 billion, Bayerische is one of the top 10 companies in the Federal Republic of Germany. Should you want more details about BV's 1983, please write to us with our English, German or French literature.

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NEW EUROBOND ISSUES

Issuer	Amount (millions)	Maturity	Coupon %	Price	Yield at offer	Price and week	Terms
FLOATING RATE NOTES							
National Bank of Canada	\$ 50	1991	1/4	100	—	—	Over 6-month Libor. Minimum coupon 5 1/4%. Commission 1/4%.
Shopbank	\$ 75	1994	1/4	100	—	99.00	Over 6-month Libor. Minimum coupon 5 1/4%. Redeemable at par in 1991, and callable at par in 1987. Commission 0.25%.
Sweden	\$ 750	perpet	1/4	100	—	99.92	Over 6-month Libor. Minimum coupon 5 1/4%. First callable at par in 1985. Switchable at par every year in July starting next year into a 4 1/2% note paying interest at the mean of the bid and offered rates for 6-month Eurodollars. Half switchable at par into the perpetual note in July 1986, 1987 and 1988. Commission 0.25%. Increased from \$500 million.
FIXED-COUPON							
GNAC Overseas Finance	\$ 200	1986	13	100.33	12.81	99.95	Noncallable.
Nippon Credit	\$ 100	1989	13 1/4	100	13 1/4	99.00	Noncallable.
Industrial Development Corp.	DM 50	1991	8 1/4	99 1/2	8.47	98.25	Noncallable private placement.
World Bank	DM 300	1992	8 1/4	100	8 1/4	98.88	
European Investment Bank	ECU 75	1992	11 1/4	100 1/4	11.08	98.75	First callable at 100% in 1990. Purchase fund operating in first 3 years will produce a 7.17% average rate, increased from 60 million a.c.
Svenska Exportkredit	ECU 57.5	1989	11	100 1/4	10.93	99.13	Noncallable.
Royal Trust	£ 30	1989	12 1/4	100	12 1/4	99.13	Noncallable.
Hudson's Bay	CS 50	1989	14 1/4	100	14 1/4	98.00	Noncallable.
Coles (G.J.)	Aus 25	1989	13 1/4	100	13 1/4	98.00	Noncallable.
EQUITY-LINKED							
Elders	\$ 160	1994	open	93 1/4	—	94.13	Coupon indicated at 11 1/4% for a yield of 12.40%. Redeemable at par in 1987, 1988 and 1989. Convertible at an anticipated 20-22% premium. Increased from \$130 million. Terms to be set June 19.
Marui	\$ 100	1999	open	100	—	—	Coupon indicated at 9 1/4%. Convertible at an anticipated 2% premium. Terms to be set June 21.
Murata Manufacturing	\$ 100	2000	3 1/2	100	3 1/2	—	Callable at 104 in 1987. Convertible at 2.28% yen, a 2% premium. Exchange rate set at 233.45 yen per dollar.
Nikko Securities	\$ 30	1994	3 1/4	100	3 1/4	98.00	Callable at 103 in 1989. Convertible at 493 yen, a 2.50% premium. Exchange rate set at 222.10 yen per dollar.
Nikko Securities	\$ 30	1999	3 1/4	100	3 1/4	98.00	Callable at 103 in 1989. Convertible at 493 yen, a 2.50% premium. Exchange rate set at 222.10 yen per dollar.

News Causes Eurobond Market to Turn Manic

(Continued From Page 17) offering \$750 million (increased from an initial \$500 million) of perpetual notes carrying a coupon of 1/4 point over the London interbank offered rate.

This was the first perpetual ever issued by a sovereign borrower, but what the market most appreciated was the novel formula permitting holders to request redemption. At any July anniversary date, holders can switch the perpetual notes into four-year FRNs. Doing so means a loss of interest because the coupon on the four-year notes is set at no margin over the mean of the bid-offered rate, which is equal to 1/16 point below Libor.

With many participants now convinced that interest rates "have" at least for now peaked, there is a rush to get into FRNs with high coupons. As a result, National Bank of Canada late Friday announced plans to offer \$50 million

of seven-year notes, priced at 1/4 point over Libor. Earlier, Finland's Skopbank offered \$75 million of 10-year notes bearing interest at 1/4 point over Libor. These can be redeemed at par after seven years, at the option of holders.

Bankers expect new-issue volume this week to explode if the late Friday improvement carries through to this week.

The only part of the dollar market not faring well was the convertible sector. The terms on the Japanese convertibles are considered skimpy and, more important, the outlook for further big gains in Tokyo stock prices is considered uncertain. If not bleak. The Murata convertible was especially hard hit, after the stock plunged in Tokyo.

In stark contrast was the \$160-million convertible for Elders, an Australian brewing and finance company, which was increased \$30 million from the initial indication.

The 10-year bonds are expected to bear a coupon of 11 1/4 percent and to be priced at a discount of 93 1/4 to yield 12.6 percent.

In addition, holders are given some protection against a poor performance of the company's shares through options to request redemption after three, four or five years at par. A holder exercising this option in 1987 would have earned 14.3 percent. The bonds, meanwhile, are convertible into shares at a price expected to be 20 to 22 percent over the prevailing quotation when final terms are set June 19.

The conversion premium is steep for this market, which is accustomed to a maximum 10 to 15 percent. But the coupon and the put options offered consolation and the bonds traded on a when-issued basis at a premium over the indicated issue price.

The Deutsche mark sector remained depressed, weighed by a

Competition for Good Clients Continues to Reduce Charges

By Carl Gewirtz

PARIS — International banks remain awash with more cash than good customers to lend to and the competition to win new business is continuing to push down the charges on new loans.

Electricite de France, for instance, was assured of a low-cost loan — in many respects the lowest cost ever for a French borrower — last week, when four lead managers agreed to underwrite a \$400-million transaction.

Within 24 hours, the amount was increased to \$500 million. Insiders say that EDF is prepared to take up to \$600 million if that much is made available.

In the Far East, meanwhile, the Electricity Generating Authority of Thailand accepted a fully underwritten \$200-million loan from a syndicate headed by Citicorp, bearing terms that many bankers argue are unjustifiably generous to the borrower.

And, of course, there was the much discussed \$1-billion standby credit for France, with a commitment fee of 10 basis points. Interest on the part of the loan used will be scaled to how much is actually drawn rather than to maturity, the normal market practice.

If no more than 33 percent of the loan is drawn, interest will be set at a thin 15 basis points over Libor — a record low for a publicly syndicated French credit.

The charge rises to 20 basis points if up to half the amount is drawn, 27 1/2 basis points if three-quarters of the total is drawn and 35 basis points if it is all used. The commitment fee of 10 basis points is to be paid whether the loan is drawn or not, so that means the cost to use the entire amount totals 45 basis points.

The size of the loan was increased \$100 million when Morgan Guaranty and Deutsche Bank joined in late. Each is underwriting \$50 million. Their presence as special bracket managers is seen as adding prestige to the operation and is expected to help attract smaller banks.

Deutsche Bank is very rarely seen in Eurodollar syndications these days and Morgan, normally a major player, has been conspicuously absent as borrowing margins have been driven to razor-thin levels.

Managers believe that despite the tight terms, syndication of the credit should be quite successful because there have been very few public syndications of French loans recently.

Last year, for example, French Eurocurrency bank credits totaled only \$1.7 billion, down from \$5.7 billion in 1982. And so far this year, according to data published by Morgan Guaranty, the volume of French borrowing is only a quarter of last year's reduced pace.

Others argue that the fact that the original \$400 million was fully

only 16 percent, or \$80 million at the current size of the transaction. The rest will be used to replace most costly back-up lines for existing credit operations.

The Thai utility will use its funds to prepay more expensive outstanding loans. Interest on the new 10-year loan will be set at 1/4 point over Libor, sweetened by front-end fees that sources close to the agreement say total 45 basis points.

The best terms the Thai government itself has ever won was 1/4 point over Libor for eight years, on a transaction that served as a

SYNDICATED LOANS

standby credit that is not expected to be drawn.

Thus, the utility's terms represent a new low. By contrast, the state agency as recently as three years ago was paying a split margin of 1/4 point to 1/2 point over Libor for five-year money.

As a standby credit, the EDF operation will be the cheapest ever for France, with a commitment fee of 10 basis points. Interest on the part of the loan used will be scaled to how much is actually drawn rather than to maturity, the normal market practice.

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Others argue that the fact that the original \$400 million was fully

underwritten by four banks — Banque Nationale de Paris, Citicorp, Industrial Bank of Japan and Lloyds Bank — should make syndication difficult.

The critics maintain that the original underwriters who put their money on the table score all the points with the borrower.

With EDF thus assured of the transaction, banks which subsequently join the deal do nothing for EDF but are critically important in reducing the large commitment of the original underwriters.

"Why should I join the deal now just to make the original underwriters look like heroes?" complained one critic.

The plan is to take whatever money is raised in general syndication to substantially reduce the commitment of the lead managers. If that is achieved, consideration will then be given to increasing the amount to the \$600 million that EDF has targeted.

Elsewhere, Merrill Lynch ran into considerable resistance trying to find underwriters for its \$500-million revolving-note facility for Spain. It was forced to modify the structure by offering to share the profits from the sale of the notes with underwriters or offering them a portion of the notes.

Merrill's approach has been to offer to sell three- or six-month notes over 10 years to investors and to organize an underwriting syndicate that would stand ready to take any notes Merrill could not sell.

Commercial bankers, who would make up the underwriting syndicate, complain that this structure leaves them minuscule profits and maximum risk.

As originally proposed, underwriters were to earn only a front-end fee of 0.125 percent and an annual fee of 0.125 percent for the first three years, 0.15 percent for the next four years and 0.175 percent for the final three years.

If the banks actually took the notes, they were to be paid 13 basis points over Libor.

To win the banks' support as underwriters, Merrill now says that it is willing to split 50-50 with all underwriters the profits it makes in selling the notes. Merrill receives 13 basis points over Libor from Spain and will attempt to sell the notes to investors at less than that.

Underwriters taking a major participation of \$50 million have the option of either sharing in the profits or taking up to half their pro-rata share of the notes at the same price as Merrill Lynch and keeping whatever profits they make from selling the notes.

This formula is designed to give underwriters an equal level of profits in the passive profit sharing or through the distribution of the notes — assuming that the notes are sold at the same price as Merrill Lynch sells them.

An underwriter taking notes and selling them at a smaller margin

over Libor than Merrill would make bigger profits.

The aim of the formula is to discourage underwriters from taking notes. Merrill wants to be sole distributor, because it believes that such an arrangement would allow it to get the best price.

On the other hand, banks that have developed their own capacity to market three- or six-month notes to private clients will want paper to sell to their clients.

A Merrill spokesman said the formula used for the Spanish trans-

action did not mean that all future note facilities it organizes would have a similar structure. "That will be decided on a case-by-case basis," he said.

A classic syndicated loan of \$30 million is currently underway for the Solomon Islands. It is offering to pay 1/4 point over Libor for the first two years and 1/2 point over Libor for the final six years as well as a commitment fee of 1/4 percent.

Mauritius is expected to tap the market for \$40 million, paying 1 1/2 points over Libor for eight years.

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REPUBLIC TUNISIEN
MINISTERIUM FÜR VOLKSWIRTSCHAFT
PHOSPHATGESELLSCHAFT GAFSA

INTERNATIONALE SUBMISSIONSAUSSCHREIBUNG N.P. 3574

Die Compagnie des Phosphates de GAFSA schreibt auf dem Submissionswege Lieferangebote für Lieferung nachstehender Bergbaumaschinen aus, die zum Einsatz unter Tage in den Phosphatbergwerken im Gafsa-Becken bestimmt sind:

- 10 Lademaschinen mit Lufthöhlerung, 1 "CUY"
- 2 Lademaschinen mit Lufthöhlerung, 2 "CUY"
- 1 Lademaschine mit Lufthöhlerung, Gabeltyp
- 1 Lademaschine mit Lufthöhlerung, 3 "CUY"

Unternehmen, die an dieser Ausschreibung interessiert sind, können die Submissionsunterlagen gegen Zahlung von 100 Dinar (einhundert Dinar) von unserer Hauptgeschäftsstelle, 9 rue du Royaume de l'Arabie Séoudite, 1035 Tunis R.P., Republik Tunesien, anfordern.

Die Angebote sind in sechsacher Ausführung in französischer Sprache einzureichen und müssen Monsieur le Directeur des Achats de la Compagnie des Phosphates de Gafsa 2130, Mellouli (Tunisien) am 4. Juli 1984 um 9.00 Uhr morgens vorliegen. Der äusserer Umschlag ist wie folgt zu beschriften:

Appel d'offres N.P. 3574

Engins miniers

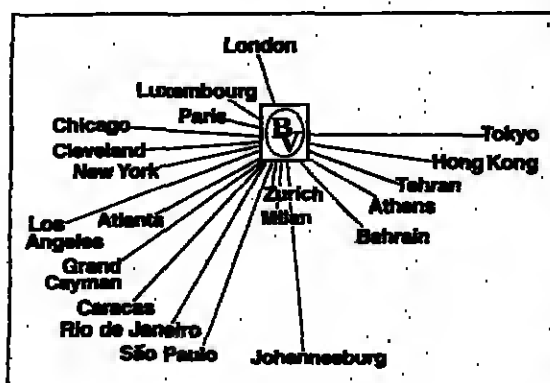
Ne pas ouvrir avant le 4 juillet 1984

(Submissionsausschreibung N.P. 3574)

Bergbaumaschinen

Nicht vor dem 4. Juli 1984 zu öffnen

Die Submissionsangebote werden auf einer öffentlichen Versammlung in der Direction des Achats (Abt. Einkauf), in Mellouli am 4. Juli um 9.00 Uhr Morgens geöffnet. Fernschriftliche oder nach diesem Datum eingereichte Angebote können nicht berücksichtigt werden.

Bayerische Vereinsbank:
'83 assets and profits up,
another successful year.

Bayerische Vereinsbank continues successful performance in 1983.

With consolidated assets of over DM 113.5 billion, Bayerische Vereinsbank is one of the four largest banks in the Federal Republic of Germany.

Should you be interested in more detailed information about BV's 1983 results, we shall be pleased to provide you with our Annual Report in English, German or French.



**BAYERISCHE
VEREINSBANK**
AKTIENGESELLSCHAFT

Bayerische Vereinsbank Group			1983 at year-end	1982
Total Assets	113 530		105 548	
Deposits				
Banking Sector	41 943		38 972	
Loans				
Banking Sector	29 825		27 831	
Bonds Issued				
Mortgage Sector	64 737		60 143	
Loans				
Mortgage Sector	65 056		61 033	
Capital Resources	2 459		2 398	
Consolidated Profit	131		116	
			(in millions of DM)	
Staff	12 979		12 641	
Branches	472		471	
BV's Dividend per 50 DM share	11 DM		10 DM	

Bayerische Vereinsbank International S.A.
38-40, Avenue Monterey
Boite Postale 481
Luxembourg
Telephone 428611
Telex 2654 bvi lu

Bayerische Vereinsbank AG
Head Office
International Division
Kardinal-Faulhaber-Strasse 1
D-8000 München 2
Telephone (089) 2132-5293
Telex 529-921 bvm d
SWIFT: BVBE DE MM

Balance Sheet '83
Investment for the Future

Our Business Volume well surpassed the 11 Billion DM level in 1983. Including legal and voluntary reserves our Equity at year-end is 458.5 Million DM.

Our Growth, greatly aided by our Branches in the Federal Republic of Germany and our London Branch, was the result of both customer and interbank business.

From our Report:

(in Million DM)	1983	1982
Loans	5,812	5,342
Deposits	8,783	8,918
Due from banks	3,477	3,099
Due to Banks	2,801	2,110
Total Assets	11,469	10,679

We are now represented by 81 Branches in Berlin, six Full Branches in the Federal Republic of Germany, and a Branch in London. 1983 once again was marked by substantial investment in the development of our Branches outside Berlin and our technical banking systems. With a clear decrease in provisions for losses, which we were able to more than halve against last year's, we achieved a Net Profit of 20.7 Million DM, permitting payment of a dividend of 12%.

Included in our Group Report are, among others, the Berliner Bank International S.A. in Luxembourg, Allgemeine Privatkundenbank AG in Hannover, and the Braunschweig-Hannoversche Hypothekbank AG. Total Group Assets were 22.4 Billion DM at the end of 1983. Upon request we would be pleased to provide you with our 1983 Annual Report.

BERLINER BANK
AKTIENGESELLSCHAFT

Head Office: Hardenbergstrasse 32 · 1000 Berlin 12 · Telephone (030) 31 09-0
Branches: Düsseldorf · Frankfurt · Hamburg · Hannover · Munich · Stuttgart and London
in Luxembourg: Berliner Bank International S.A.

	Saves in 100%	177	27	61	100%
Indirect	25	5	42	10	100%
Indirect	1,800	11	15	10	100%
Indirect	1,000	11	15	10	100%
Indirect	1,000	11	15	10	100%
Indirect	25	11	15	10	100%
Indirect	84	27	15	10	100%
Indirect	15	42	15	10	100%

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1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400																																																																																																																																																																																																																																																																																																																																																																						
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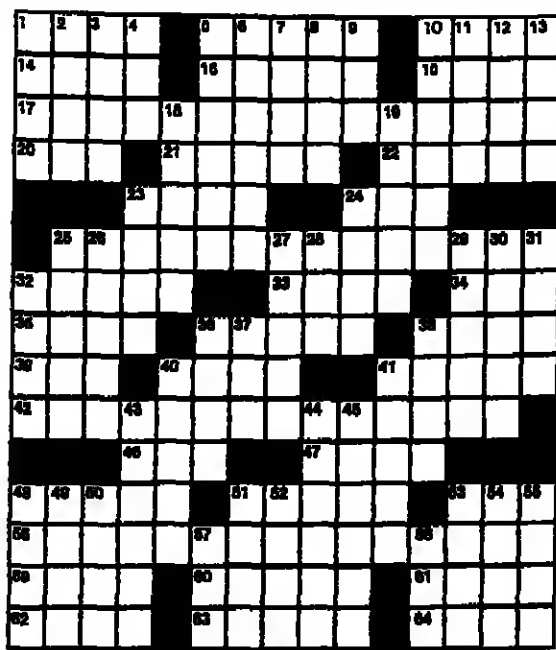
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X					
Kelco			275410	6%	0
Kelco			104913%	12%	12%
Kelco			309118	14%	14%
Y					
Yellow	.72	3.7	288325%	24%	24%
Z					
Zenith			35716	14%	14%
Zenith			22751%	4%	4%
Zenith	4.0	4.0	12111%	11%	11%
Zenith			9710	10%	10%
Zenith	.30	2.2	37311%	13%	13%
Zenith			5844%	3%	3%
Zenith			12095%	5%	5%

For the Week Ending June 15, 1984

[illegible]



ACROSS

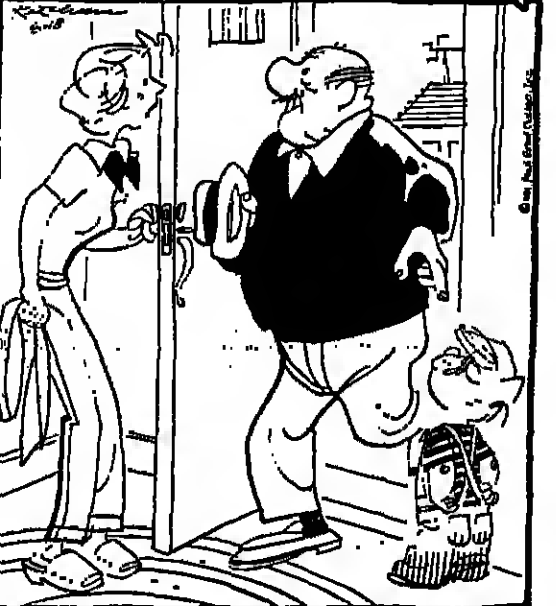
1 Lyricist who wrote every song in this puzzle
8 Device on a Model 1
10 Freshness event
14 "I cannot tell"
15 Easy runner
17 Hit song of 1946
20 When Paris sizzles
21 "of robins..."
22 Targets at Doris
23 Benedict
24 Cyclotron item
25 Seasonal song of 1984, with "The"
32 Ball-wild horse
33 Friend in a fray
34 Suffix with flex
35 Be bested
36 Frankie, pianist
38 Guitar part
39 "It's You or No" song
40 Grammy-winning singer, 1984
41 Department of Peru
42 Hit song of 1984

DOWN

1 Place to eat
2 Came down
3 Busy place
4 Wedding report word
5 Emulates a limpet
6 Aboveboard
7 Work of art
8 Extra of comics
9 Palindromic conjunction
10 Best seller in 1983
11 Mill, truant
12 "I Should" song, 1944 hit
13 "Windows of the soul"
14 "I'm a..."
15 1940 hit song
19 Ostentatious
20 Pelagic bird
21 Offshore night
22 Grimaldin hit song

© New York Times, edited by Eugene Malachuk.

DENNIS THE MENACE



JUMBLE

Unscramble these four jumbles, one letter to each square, to form four ordinary words.

LAPID

SCAMK

CAUPT

QUINUE

Answer here: "O O O O O O O O O O"

Friday's Jumble: THINK MERGE INNATE (Answers tomorrow)

Answer: The doctor decided to "merge" medicine until he got it RIGHT

WEATHER

EUROPE HIGH LOW ASIA HIGH LOW

Algeria 19 64 71 31 82 89

Amsterdam 18 63 70 30 81 88

Antwerp 18 63 70 30 81 88

Athens 18 63 70 30 81 88

Bahia 18 63 70 30 81 88

Batavia 18 63 70 30 81 88

Bombay 18 63 70 30 81 88

Buenos Aires 18 63 70 30 81 88

Buenos Aires 18 63 70 30 81 88

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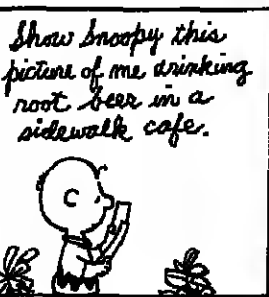
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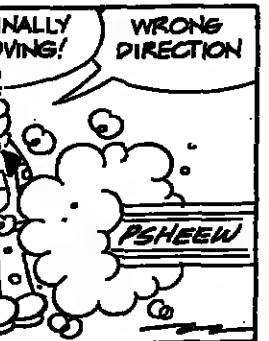
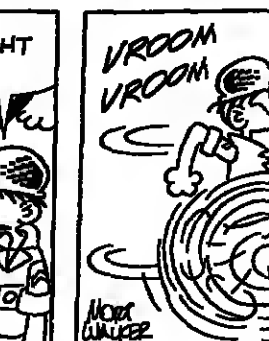
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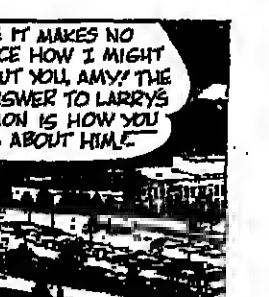
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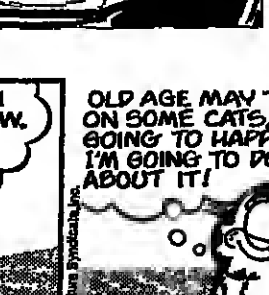
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REX MORGAN



GARFIELD



SPORTS BRIEFS

New Zealand Beats France in Rugby

CHRISTCHURCH, New Zealand (Reuters) — New Zealand beat France, 10-9, Saturday in the first test match of the French rugby tour here.

Warwick Taylor scored a try and Allan Hewson added two penalty goals for New Zealand, while Serge Blanco with a try and Jean-Patrick Lescaur with a conversion and a drop goal replied for France.

NBA Sues to Prevent Move by Clippers

NEW YORK (AP) — The National Basketball Association has filed a suit to replace or terminate the San Diego Clippers franchise because the club moved to Los Angeles without league approval. Named in the \$25-million damage suit are the San Diego franchise and the commission of the Los Angeles Memorial Coliseum, where the team plans to play next season.

However, the league said Friday that because of uncertainties created by rulings in past cases involving the movement of professional sports franchises, the Clippers will be scheduled to play their home games in Los Angeles and "any further steps to terminate the Clippers' franchise will await the outcome of the litigation."

The NBA said that under the suit, filed in a San Diego court, another franchise could be created by the NBA board of governors to replace the Clippers either in San Diego or in another city.

Baumann Sets Record in Swim Medley

TORONTO (AP) — Alex Baumann set a world record of 4 minutes, 17.53 seconds for the 400-meter individual medley Sunday during a qualifying heat at the Canadian Olympic trials swim meet. Baumann, 20, who also holds the world record for the 200 individual medley, shattered the previous best of 4:19.61 set three weeks ago by Jens-Peter Berndt of East Germany.

Amsterdam's Bid for Games Is Backed

THE HAGUE (Reuters) — The Dutch government has agreed that Amsterdam can formally bid to hold the 1992 Summer Olympics. Prime Minister Ruud Lubbers said Friday that the government had agreed to a request from Amsterdam, the site of the 1928 Games, for a guarantee of 250 million guilders (\$83 million).

The other cities seeking to host the 1992 Games are Barcelona, New Delhi, Paris, Stockholm and Brisbane, Australia.

For the Record

Life's Magic, avenging her defeat by Miss Oceana in the Acorn Stakes three weeks ago, scored a 3 1/4-length victory in the Mother Goose Stakes at New York's Belmont Park Saturday for 3-year-old fillies. The race is the second leg of the New York Racing Association's Filly Triple Crown, which will conclude with the 1 1/2-mile Coaching Club American Oaks at Belmont on July 7. (AP)

Verona of Italy's top soccer league has reached an agreement for the transfer of defender Hans Peter Briegel from Kaiserslautern of West Germany. (AP)

On the Road Again held off Holmes Hancover by a head at Yonkers, New York, Raceway Saturday night to win the Canoe Pace, the first leg of plying's triple crown. On the Road Again paced the mile in the stake's record time of 1:56.80, breaking the mark of 1:57. (NYT)

Transition

BASEBALL

CLEVELAND—Activated Jamie Easterly, pitcher.

NEW YORK—Activated Mike Armstrong, pitcher, to the roster. Options Clay Christensen, pitcher, to Columbus of the International League.

NATIONAL LEAGUE

MONTREAL—Placed Terry Francona, outfielder, on the 21-day disabled list.

NEW YORK—Placed Mike Torres, pitcher, on the 15-day disabled list.

ST. LOUIS—Traded Ken Oberkump, infielder, to the Atlanta Braves for Mike Jaraman, first baseman-outfielder, and Ken Dwyer, pitcher.

ST. LOUIS—Placed Bob Forsch, pitcher, on the 15-day disabled list.

PITTSBURGH—Reactivated Arnes Ott, outfielder, from the 21-day disabled list.

NEW YORK—Placed John Flinn, first baseman-outfielder, on the 15-day disabled list.

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United Press International

MONTREAL — Left-hander Dan Schatzeder allowed five hits over seven innings and singled home the game's only run Friday night, leading the Montreal Expos to a 1-0 victory over the Pittsburgh Pirates.

Schatzeder was making his first start since July 28, 1983, which was the last time the Expos started a lefty.

Schatzeder (2-2) had lost six straight decisions to the Pirates before getting the victory. He walked three and struck out two before giving way to Bob Jones, who earned his first save.

The Expos scored in the second inning off Jose Delzon (3-4) when Tim Wallach doubled, Jim Wohlford walked and Schatzeder drilled a single down the left-field line.

Pittsburgh threatened in the fifth

when Johnny Ray and Dale Berra led off with singles, but Schatzeder struck out Delzon and forced Marvell Wynne to bounce into a double play.

Mets 5, Cardinals 0

In St. Louis, Keith Hernandez and Hubie Brooks hit fourth-inning home runs and Walt Terrell pitched a complete game.

FRIDAY BASEBALL

and Jesse Orosco combined on four hits as New York shut out the Cardinals, 5-0. Joaquin Andujar (10-6) was the loser.

Astros 3, Dodgers 2

In Houston, Phil Garner singled home Terry Puhl with one out in the ninth to give the Astros a 3-2 victory over Los Angeles.

Braves 6, Reds 1

In Atlanta, Rick Mahler drove in two runs and tossed a three-hitter as the Braves defeated Cincinnati, 6-1. Mahler (5-1) struck out four and walked one for his third complete game. Dave Parker homered for Cincinnati.

Phillies 5, Cubs 2

In Chicago, Ivan DeJesus lined a two-run single to key a four-run fourth and Charles Hudson and Al Holland combined on a four-bitter to lift Philadelphia, 5-2, over the Cubs. Hudson (7-4) went the first eight innings, and Holland pitched the ninth for his 14th save. Ryan Sandberg homered for Chicago.

Padres 3, Giants 2

In San Diego, Graig Nettles hit a two-run homer and Ed Whitson and Rich Gossage combined on a seven-bitter as the Padres edged San Francisco, 3-2. Whitson (7-3) went the first seven innings and Gossage retired the last six batters in a row.

Blue Jays 4, Red Sox 3

In the American League, in Toronto, Rance Mulliniks hit a two-

club queen and led to the ace.

He repeated the diamond finessence and was at the crossroads.

The normal play was to cash the diamond ace, hoping the king would fall. However, the diamond nine had appeared on his right.

This was a straw in the wind, and South took it at its face value. He finessed the spade queen successfully. Then he continued clubs, and West was helpless. The slam was now unbeatable, and South made an overbait when West ruffed prematurely.

The winning team gained 11 points when the opposing

club queen and led to the ace.

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BOOKS

A CERTAIN LUCAS

By Julio Cortazar. Translated from the Spanish by Gregory Rabassa. 160 pp. \$12.95. Knopf, 201 East 50th St., New York, N.Y. 10022.

